SOVIET BLOC DEBT AND FINANCIAL INTEGRITY OF THE CCC

HEARING

BEFORE THE

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FRIDAY, MARCH 12, 1982

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m., in room 324, Russell Senate Office Building, Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms and Melcher.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. The committee will come to order.

Senator Kasten, we have a long name for this committee. In informal reference, we call it the Ag Committee, but when you are making a formal statement, you have to call it the Committee on Agriculture, Nutrition, and Forestry, which today is charged with the responsibility for the operation of the Commodity Credit Corporation and for the oversight of its programs and activities.

We do not take that responsibility lightly. Indeed, the very structure of all farm programs is based upon the continued functioning of a fiscally sound Commodity Credit Corporation.

The CCC is the credit window for virtually all USDA activities and as such is an integral and vital part of the farm economy of this Nation.

Because the farm economy of the United States is presently organized to participate in a vast export trade, the relationship of the CCC to the overseas movement of U.S. agricultural products is also of vital interest to this committee, obviously.

Consequently, the relationship of the exporting lending activities of the CCC to the problems of overdue payment on the loans to Poland and other Soviet bloc nations is of particular interest to this committee.

I hope we can resolve any uncertainty in the farm trading sectors of the United States regarding the integrity of the Commodity Credit Corporation, including:

(1) The legal authority behind the current Commodity Credit Corporation policy of paying obligations in the absence of notice of default by private banks holding CCC guarantees;

(2) The exposure faced by the CCC on loans guaranteed to Poland and the Soviet bloc nations; and

(3) The ramifications of these matters on the international financial system and the U.S. agricultural sector in the event Poland and/or other nations are in default of their loan obligations.

In short, we want to have a comprehensive overview of the exposure CCC faces from financing the trade it had underwritten and an assessment of the potential for Poland and Soviet bloc nations to continue as paying markets for U.S. agricultural products.

Now, in a moment, I want to recognize our very distinguished and able colleague from Wisconsin, Mr. Kasten, as our first witness, but before I do so, I ask unanimous consent on behalf of Senator Jepsen that a statement by him be included in the record.

Without objection, it will be included.[1]

Bob, we welcome you to this committee, and we will be delighted to hear from you.

STATEMENT OF HON. ROBERT W. KASTEN, A U.S. SENATOR FROM WISCONSIN

Senator **Kasten**. Mr. Chairman, and members of the committee, I appreciate this opportunity to speak before you on Commodity Credit Corporation loans to Poland and other Soviet satellite countries.

Three months ago, martial law was declared in Poland. Five thousand Poles have been detained without charge and without accounting. The Solidarity movement has been crushed and Stalinistic repression of the Polish people continues. The West has responded with a great deal of handwringing and a few ineffective trade sanctions.

Not only have we failed to take tough action on Poland, we are quietly bailing out the banks involved through an unusual and some say, Mr. Chairman, illegal Commodity Credit Corporation procedure.

The CCC plans to pay $71 million in February and $876 million over the next 2 years for Polish agricultural loans which are overdue to U.S. banks. The CCC's own rules and regulations require banks to first give a notice of default which the government must confirm before any payment is made.

These rules, evidently, don't apply in the case of Poland. At least one independent legal foundation has already filed suit, protesting that these CCC payments cannot legally be made until default is declared.

Last month, Romania became the second Soviet bloc country to go into arrears on its debts to the United States. Faced with a last minute ultimatum from our State Department, Romania made a $5.8 million payment to the Commodity Credit Corporation, but private bankers confirm that Romania is behind by as much as $1 billion in payments to its Western creditors.

The Eastern bloc country is now attempting to arrange a limited rescheduling of its outstanding hard currency debt believed to total between $10 and $14 billion.

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[1] See p. 55 for the prepared statement of Senator Jepsen.

Some bankers predict that Hungary and East Germany will be the next Soviet bloc countries to fall behind in payments to the West.

But we must not limit ourselves to the details of default. There is a broader, more important issue to be considered here. For years, our trade and economic relationships with the Soviet bloc countries have hardly been in our own best interest. The benefit of expanded trade with the West were supposed to be dependent upon Soviet good behavior. And the Soviet Union has certainly benefited by using its East European allies as a conduit for Western goods and technology—essentially forcing those countries to absorb the hard currency debts that the Soviets would otherwise be forced to pick up. When Poland's debt payments were stretched out in April of last year, Western creditors included a so-called tank clause, calling for default in the event of exceptional circumstances such as internal repression. Now that these exceptional circumstances have occurred, the trade that was intended to bind East to West with hoops of gold is binding our own hands instead.

Officials argue, and you might hear some of this today, Mr. Chairman, that by declaring Poland in default we would cause financial havoc in the rest of Eastern Europe which, in turn, would rain havoc upon the Western financial institutions and governments. The inference is incredible—that we must continue to prop up the military government of Poland and the rest of Eastern Europe in order to save our own financial system.

Our seeming paralysis on the question of default just underscores our credibility crisis abroad. U.S. threats to use the economic measures available to us—to deny the East the benefits of trade—no longer carry any weight. They are not credible to our adversaries or to our allies.

A declaration of Polish default would help restore that missing credibility. It would simply do what we said we would do—what all the Western creditors said they would do—under the so-called tank clause, the exceptional circumstances clause of last April's debt rescheduling agreement.

A declaration of default would also aggravate the financial strains already apparent in the Soviet economy and make it more difficult for the Russians to continue their unprecedented military buildup.

Even though the Soviet gross national product is only 60 percent as large as ours, the Soviet investment in arms is much higher, exceeding U.S. investment by 80 to 90 percent during the last 5 years. This buildup occurred during the period called détente when East-West trade expanded and when the West supplied an estimated $80 billion in credits to Soviet bloc countries.

In testimony before my Foreign Operations Appropriations subcommittee, Under Secretary of Defense Fred C. Ikle stated that, if Poland is declared in default:

> The sky will not fall on the West. A limited but significant piece, though, may fall on the East. The pain in the West would be quite tolerable. It would be confined mainly to those financial institutions and traders who argued that we should extend a "carrot" to the East to induce good behavior, but who are now opposed to withdrawing this "carrot" when the behavior repeatedly is abominable.

American citizens are taxed twice for the Soviet military buildup: First, because the Soviet buildup necessitates an increase in our own defense budget, and a second time, when our Government subsidizes bad old loans and new loans to the Soviet bloc. It's time to put the financial responsibility for the Eastern bloc nations back where it belongs—squarely on the Soviet Union.

Mr. Chairman, it's up to Congress to put backbone into the official U.S. reaction to martial law in Poland. The exceptional circumstances clause of the Polish debt rescheduling agreement has been met. The Polish Government is technically in default on loans to almost all of its creditors. What does America gain by this delay? The time to declare Poland in default is now. On February 10, 39 Senators backed the Moynihan-Kasten amendment to send that message to the administration.

As chairman of the Foreign Operations Appropriations Subcommittee, I intend to continue hearings on the issue of Soviet bloc debt, and on March 2, I introduced legislation to call in default any nation which fails to meet its financial obligations to the United States.

Specifically, my bill would prohibit the Treasury or other Government corporations such as the Commodity Credit Corporation from paying on loan guarantees or agreement unless the borrowing country's debt has been rescheduled or the country has officially been declared in default.

I for one do not believe our farmers want their program used to bail out banks, the repressive Polish military regime or, indirectly, the Soviet Union.

Mr. Chairman, I very much appreciate the opportunity to work with you on this issue, and I also appreciate the fact that you and your committee are bringing further attention to this problem which is, I think, a very, very significant and difficult one. I am hopeful that we will find the proper solution.

So I commend you for your efforts and I thank you for your help and for your support.

The CHAIRMAN. And in turn, Senator Kasten, I thank you for coming here this morning and offering your fine statement. It was very eloquent.

And I want to thank you for the leadership you have already exhibited in connection with your responsibilities before the Appropriations Committee and as a cosponsor of an amendment to House Joint Resolution 389 on February 9.

We look forward to your analysis of the situation as the days go by and we thank you for appearing here this morning. I understand that you have a committee meeting that is going on right now.

We would be delighted if you could stay with us as long as you will, but thank you for coming.

I must apologize to my distinguished colleague, Senator Melcher. These lights are so bright I am not seeing everything that I ought to see, and he came in and was not recognized a moment ago for an opening statement, but we would be glad to hear from you, John. I appreciate your coming.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator **Melcher**. Thank you very much, Mr. Chairman.

First of all, I am very happy that you are holding this hearing because the relationship of the Commodity Credit Corporation's export lending activities to the current problem of payments on loans made to Poland and Romania is certainly right on the forefront of all the issues that we must be addressing right now.

I was delighted to hear Senator Kasten's very well-thoughtout presentation of his views, and I am looking forward to hearing from the Department of Agriculture, the Department of the Treasury, the Department of State, the Department of Defense, and the Comptroller of the Currency, and also the former Polish Ambassador to Japan, because maybe we can get a better picture of all this.

The CCC plays an extremely vital role in carrying out this country's programs that involve agriculture and what they do has a great deal to do with farm income.

Now, it has another mission, too, that is of promoting the export of the U.S. agricultural products.

In the promotion of those agricultural exports, what about the credit and how long are we going to extend it and under what conditions are we going to start pulling back from the extension of that credit and declaring default.

Well, we've got to get those answers. It is just too important to all of us not to understand what all this involves. But the point that strikes me most dramatically right now is that while we have grave apprehensions about the military intentions of Russia and the Iron Curtain countries which it controls, and indeed, we are expanding our defense capabilities because we feel we have been a little bit lax in that over the past several years. In the meantime the Soviet bloc has been going forward with modernizing and expansion of conventional arms and really expansion of nuclear weapons, too.

So it causes us a grave concern on the issue of peace. We are dealing here now through the CCC not with weaponry but with food. We have to balance on one hand the need for life's sustenance of food ingredients for Polish people, and whether or not it is correct, proper and in good public policy, for us to continue to sell American agricultural products to Russia.

We have had one embargo on grain sales to Russia which has ended, and now the question is are we entering a new round of debate within ourselves, within this country on a different type of embargo, a different type of restraint, a different type of restriction.

We find this intermingling of what happens to Poland is going to have some effect on what Russia is doing, what their economic situation is and particularly what their activities might be in regard to Poland.

So on those rather complex, intertwined issues, this hearing is extremely important. I have strong feelings that we want to help American agriculture and the CCC credit is one of the ways that we help American agriculture and certainly in all those crops that we know we are raising more than we could possibly use in this country, we are raising them, in effect, for export.

But on the other hand, I understand the part or the interplay of withdrawal of the credit to Poland and to Romania and what effect that has on Russia and what the long range effect that might be on the entire group of Iron Curtain countries.

So I suspect I approach this round of hearings with a desire to have the gaps filled in and in particular a desire to understand how it is going to affect American agriculture and a particular desire to see whether or not this enhances or restrains the export of American agricultural surplus grains.

Thank you very much, Mr. Chairman.

The CHAIRMAN. John, I think you have stated the case splendidly in terms of the question we are trying to resolve. I thank you for your statement.

Just about everybody scheduled to appear today is running with his coattail hanging out to kind of meet other obligations.

Fred Ikle, whom I frequently see in my capacity as a member of the Foreign Relations Committee, is our next witness. Fred C. Ikle is Under Secretary of Defense for Policy of the United States, and I understand you are on your way to Europe with a former member of the United States Senate, Jim Buckley.

We welcome you this morning and we look forward to your statement, sir. We appreciate your coming.

STATEMENT OF HON. FRED C. IKLE, UNDER SECRETARY OF DEFENSE FOR POLICY, U.S. DEPARTMENT OF DEFENSE

Secretary IKLE. Thank you, Mr. Chairman. I shall summarize my statement and submit it for the record.[1]

The CCC backed credits to Poland are part of a much larger array of credits from the West to the Soviet economic system that are government backed. There are German credits that the German Government insures, there are other European credits backed by other governments, there are credits whose interest rates are kept artificially below market rates. In brief, the taxpayers of the Western Alliance are subsidizing in various overt and covert ways transfers of Western resources to the Soviet bloc.

In the past decade or so, we have been all too cavalier about these blood transfusions to our adversary. Congressional committees examine with great scrutiny our financial assistance to our friends, to our very best allies who may be in dire need of help.

Whether it is Turkey, El Salvador, Pakistan or Portugal, we in the administration have a hard time to convince your colleagues to approve an adequate level of assistance. And we understand, of course, the reasons for budgetary stringency, but this hearing, Mr. Chairman, is one of the few and first ones scrutinizing the assistance we have been providing to our adversaries. This is long overdue.

Now, what is the national security concern regarding the net resource flow in favor of the Soviet bloc? Why is this so important?

The Secretary of Defense Weinberger has explained to Congress the basic aspects of this policy. Let me just summarize very briefly the main points.

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[1] See p. 57 for the prepared statement of Secretary Ikle.

Senator Kasten already mentioned the Soviet Union. Even though its gross national product is less than ours, they are spending more on defense and will continue to do that for the years ahead of us.

But we have also found that the period that we called détente, not during the cold war, was the period when the Soviets embarked and persisted in their massive military buildup.

It was this period when East-West trade expanded and we gave increasingly accumulating credits to the Soviet economic system. And it was during this period that it was argued by proponents of easy and expanding credits for the East that there were the political and security benefits from this generosity.

The expanding credit, it was argued, would help solve the vestiges of the "cold war" and thus induce military restraint but, in fact, the Soviet military buildup accelerated.

People thought that these credits and the technology transfers would, in a way, provide a carrot that could be used to exert some beneficial influence on Soviet behavior.

But history has turned this theory upside down. The fear is now partly on the Western side in Western business communities that if we discontinued these credits, we would be harmed. Actually further analysis has indicated that this concern is greatly overstated.

One might say that with some justice that the damage from the reduction of these credits would be confined mainly to those financial institutions and traders who argued that we should extend the carrot to the East to induce good behavior and who are now opposed to withdrawal of this carrot when the behavior is abominable.

Anyway, there is an ideology, you might call it, Mr. Chairman—those ideologs who remain locked into the simple illusions of détente and who argue that if the Western economic support for the communist governments were discontinued, the Soviet leadership would go even further in strengthening its military buildup even to starve its own people.

But this view is uninformed of the actual facts. We see tendencies of contraction. We see the Soviet Union selling gold to buy wheat—not just to buy arms. So the constraints are operating on the Soviet Union in their economy as they obviously would have to.

But according to the ideology of détente, offering easy credit to the East would link the Eastern bloc to the West, putting a leash on Soviet behavior, so to speak. Now, we discover that this leash is being pulled by the other side, Mr. Chairman. The dogs on this leash are in the West and the masters are in the East.

The Soviet Government, by controlling all its purchasing agents, its banks, its farm organizations, is now able to manipulate powerful interests and institutions in the West. The purpose of this manipulation is to maintain a generous flow of resources from the West to the East.

The Alliance's threat to stop the flow was supposed to constrain Soviet policy. Now, some feel we should turn this upside down and continue the subsidies.

But seen from the higher vantage point of the common defense of our Alliance and the taxpayer's burdens, it makes little difference whether or not Western banks and governments receive the interest payments from the Polish loans. They are relatively small in the larger picture of these matters.

What matters is whether the Soviet economic system will receive additional credits in the years to come. The overriding objective of the East-West economic policy has to be to improve the security of the Alliance, to perserve peace, to enhance the prospects of genuine arms control.

And to this end, we must curb the net flow of resources into the Soviet bloc so as to let the inherent weaknesses of the current economic system take its natural course and constrain the buildup.

To mention one area of special interest to this committee, the sale of wheat and other agricultural commodities ought to be conducted, I believe, on a cash basis. Such a policy means the Soviets have that much less hard currency available to buy technology from the West to support their military buildup. Giving the Soviets loans to buy grain allows them to meet the requirements of their burgeoning military buildup. Requiring them to pay hard cash, on the other hand, would work to limit their ability to maintain the military expansion program they have underway.

And they have shown, indeed, a willingness to use their cash to buy our grain, and there is no reason why we should not continue selling it on that basis at this time.

While the U.S. Government is not presently lending money to the Soviet Union for the purchase of grain and foodstuffs, I was dismayed that private banks are now doing so.

I do not see how such loans can be in the national interest or for that matter in the interest of the banks. From a purely financial point of view, given the shakiness of the Soviet economy, the massive problems in the Warsaw Pact, the fact that there are reports that the Soviets are requesting delays in the repayment of existing loans, I am not sure it is good business practice to make these loans with the Soviets. And I wonder whether the shareholders of these banks may feel differently about this.

Mr. Chairman, there is considerable anguish in Congress about the need for a larger defense budget, and the same burden is felt by many of our allies. The long-term prospects for reducing this burden without increasing the risks of war are bleak, however, unless we can induce the Soviet Union to throttle back on their military buildup.

We tried to set an example by unilateral restraint. That did not work. We tried to talk our adversaries into agreeing to military cutback, through arms control. That did not work.

The time for illusory policies is gone. We now must let the hard facts of economic forces take their course. Given a consistent policy in East-West relations, I believe in the long run we can be optimistic.

We can move into a new era when the military competition will be halted and when the people of the Soviet Union can, at last, devote their resources to improve their standard of living.

Thank you, Mr. Chairman.

The **Chairman**. I thank you for a forthright statement. I am sure that you will be in for some criticism somewhere along the line for having been as frank as you have been, which I appreciate.

I was thinking as I followed you as you summarized your comments about the banks making the loans that the United States Government no longer makes and you questioned not only whether that practice is in the national interest but whether it is even good banking practice.

Well, I guess I have to leave it to the banks and their shareholders and their boards of directors to make the judgment about whether that is good practice or not.

But as one Senator, I guarantee you I am never going to cast a vote to bail out the banks making loans like this. And furthermore, it has been of interest to me since I have been in the U.S. Senate that in so many instances, the giveaway of the Panama Canal being one of them, you could see the fine hand of some of the international bankers.

Some of the most intense lobbying on behalf of the treaties involving the Panama Canal was done by the banks who had made sour loans down in Panama.

So they need not come to me to lobby me about bailing them out for having made loans to Poland or anybody else.

Now, do the Soviets pay hard cash to their other suppliers such as for wheat from Argentina?

Secretary IKLE. I believe they mostly do. They may have some credits. They may have short-term credits in some cases, very short term.

The CHAIRMAN. To the extent that you are able to do so, would you tell me about the purpose of your trip with Jim Buckley?

Secretary IKLE. Well, I would rather not go into the details of the position of the mission that has only started. The newspaper reports which I shall neither confirm or deny were arguing that this mission would talk about the problem of West to East credit flows and ways of curbing that flow.

The CHAIRMAN. How much leverage do you think we have with our European allies?

Secretary IKLE. I think, Senator, we have substantial leverage. First of all, we are starting from a common basis. We have a common interest in our defense of the alliance and the recognition that is now spreading in Europe that our other approaches for halting the Soviet military buildup did not work and have been unwittingly, and in some cases maybe wittingly, subsidizing this buildup.

That we have been putting our financial institutions at risk, and there is an important point. The European financial institutions are at much greater risk than the U.S. financial institutions.

So I would think the Europeans would have a keen interest in working with us on a solution that takes care of both of legitimate economic concerns about our financial structure in Western Europe, to a lesser extent in the United States, and the purposes of our common defense.

The CHAIRMAN. What credits are they extending to the Soviet Union?

Secretary IKLE. The facts are really hard to collect. What is of concern to us, of course, is not short-term credits which are normal as an extension, in a sense, of cash transactions but longer term credits, particularly those that are subsidized by their governments and hence by their taxpayers.

The subsidies take various forms. Insurance, as in the case of the Federal Republic. Government guarantees, low interest rates, and sometimes very complicated deals where the price is manipulated of the goods sold so as to make the interest rates lower.

There is a considerable under-the-table process of subsidizing these exports.

The CHAIRMAN. Did our Government ever do the same thing in the past?

Secretary IKLE. I would not want to give an absolution for what we have done in the past here, Senator.

The CHAIRMAN. I will withdraw the question.

The President wants to stop the Siberian pipeline project, and to do that is going to involve extension of credit to the Soviet Union by some of our allies.

Now, I have heard that the Europeans argue that we ought to be careful not to undermine the unity of the alliance, as they put it. Now, our insistence on these issues, do you think this is a serious problem?

Secretary IKLE. I do not think so if it is handled properly, and we will make every effort to handle it right. First of all, the pipeline project, contrary to newspaper reports, is really a more fragile project.

This is an enormous project lasting into many years with a multiple and in some cases, dubious credit arrangements. Many Europeans are quite concerned about the overly generous credit arrangements that have been made for these projects.

Many Europeans inside and outside of government in Europe feel a greater effort could have been made to go for alternative sources of energy which would not only be more secure and politically more desirable but would actually be cheaper.

Given these uncertainties that are, in a way, sloshing around among European financial and energy experts, it is not impossible that the project will become partially unstuck.

Now, there is a network of pipelines already existing that goes back to, I believe, the 1950's, and obviously, the Soviet Union is already exporting natural gas in a certain amount which is not necessarily upsetting. These exports can be a complementary source of energy.

That is not the problem. The problem is the dimension of the project, and I think it is on these dimensions that the President's policy to which you correctly referred, Senator, of halting a massive pipeline project I think has good prospects.

The CHAIRMAN. I will ask one more question and then go to Senator Melcher.

As I understood your statement, you explicitly, as well as implicitly, referred to transfer of high technology from the United States to the Soviet Union.

The risk to our own national security is self-evident I think. What you are saying about agricultural products—provided they are paid for by the Soviet Union to the United States in hard cash gold—you consider those to be nonstrategic and therefore you are not so much worried about that. Is that a fair assessment of your statement?

Secretary **Ikle**. That is right. In a way they are like a sponge soaking up the Soviet hard currency assets or flow and diverting that flow to something that is much less harmful than if it was used to buy machinery and technology and things to build weapons.

The **Chairman**. Thank you very much.

Senator Melcher.

Senator **Melcher**. Mr. Secretary, on February 2, it was reported by the New York Times that Secretary Haig identified the administration's position and that was to pay the American banks $71 million owed by Poland and sidestep declaring Poland in default on those debts.

Now, that seemed to be the position of the administration. What is noted in the same article, that is the Times article by Leslie H. Gelb, published on February 3, it was noted that the group of departments who discussed this matter to make a recommendation for the President, that you were the only one of that group who argued in favor of declaring Poland in default.

Now, am I to understand that Secretary Haig and President Reagan still adhere to the policy that was described as of February 2?

Secretary **Ikle**. Other witnesses will be discussing this. I certainly do not want to comment on newspaper speculation about positions taken by colleagues in the administration or myself because we cannot conduct our business if we cannot discuss something without having a story about it.

So I am not saying that was a correct or false account in any way. I had the opportunity before Senator Kasten's subcommittee to testify with my colleagues on this question of the default and what I said then is what I could say again today—that the question is a complex one.

We want to leave the options open because we want to look at the whole larger mechanism in the context of the net credit flow from the West to the East.

And whether default is an instrument there or a danger or a combination of the two has to be carefully examined, and the President, therefore, made the prudent and obviously correct decision of for the time being not pressing for the de jure default of the Polish loans.

Senator **Melcher**. Well, I am not going to ask you to speculate on the future. I guess to make my question more precise, as of that date, it was correct to say that the President made a decision, Mr. Haig described that decision on February 2, and that position was to pay American banks $71 million that was owed by Poland.

Secretary **Ikle**. I really should not be testifying on the detailed aspects of the Commodity Credit Corporation. You have other witnesses here.

But as I understand it as a layman on these matters, the situation is really quite simple. It is the purpose of the Commodity Credit Corporation arrangements to guarantee these loans.

And if the payments do not come in, then these guarantees get activated. Now, whether or not in connection with that process a de jure default is asked for or is necessary is something I think other witnesses are better qualified to testify to.

Senator **Melcher**. Do you know what the decision was on $71 million?

Secretary **Ikle**. Yes, on that payment that became due, the CCC did compensate the banks for the payments which they did not receive from Poland.

Senator **Melcher**. For $71 million?

Secretary **Ikle**. This is what I understand, but, again, the CCC witnesses will give you better details on that.

Senator **Melcher**. Do you know whether—well, you do not want to comment on whether Haig announced the position of the President as of that date, February 2?

Secretary **Ikle**. I do not recall whether he announced it or whether the New York Times alleged he announced it. So I do not want to comment on that.

Senator **Melcher**. Do you know what the position was on February 2?

Secretary **Ikle**. I cannot recall precisely what happened on February 2, but myself testifying——

Senator **Melcher**. Well, right here——

Secretary **Ikle**. Let me just try to declare my own testimony to the effect that the President's decision was not to press the CCC process to trigger a de jure default at that time.

And I think the President himself spoke to that later on and said, if I can recall it correctly, that the option remains open, but at that time, the decision was not taken to press de jure default.

Senator **Melcher**. Well, just to clarify my understanding——

Secretary **Ikle**. I am trying to get to the heart of your question to be responsive, Senator.

Senator **Melcher**. Just to clarify my understanding, that means the CCC paid the banks.

Secretary **Ikle**. I believe they paid by now, but maybe they have not. You should ask the CCC witness.

Senator **Melcher**. Yes, we will.

Secretary **Ikle**. Sure.

Senator **Melcher**. But that is your understanding of it?

Secretary **Ikle**. Right. It is not my area but it is my understanding.

Senator **Melcher**. Well, it is necessary for me to have your understanding of the facts at that time in order to follow your testimony as of today.

Secretary **Ikle**. Sure, right.

Senator **Melcher**. Now, when you say about these blood transfusions to our adversary, you mean—first of all, I have to understand what a blood transfusion is.

Secretary **Ikle**. That is a metaphor for a net flow of resources. That is to say, there are—there are obviously resources flowing from the Soviet Union to the West. They are selling natural gas. They are selling Vodka. They are selling other commodities.

But there is a net flow to the Soviet Union, and the difference has to be made up in some way, and it is made up through credits.

Now, there is a clear expectation that——

Senator **Melcher**. Are the credits the blood transfusion?

Secretary **Ikle**. That is the measure of it. That is a measure of it. There are other measures of it. Partly we have transfusions of our intellectual rather than our economic assets in the form of advanced technology. But that is a separate area.

But in the area where we talk about more economic assets, the net increase in credits in favor of the Soviet Union is a measure of the flow that goes to their side.

Senator MELCHER. Including credits through CCC.

Secretary IKLE. Indeed.

Senator MELCHER. Who is our adversary? That is the second part of the question. It is in the same sentence.

Secretary IKLE. The adversary is the Soviet Union. It is because of the Soviet Union that we have to ask Congress for the defense budget that we have submitted.

Senator MELCHER. Well, then, the blood transfusion includes credits for food through CCC to the Soviet Union, but you have testified, and I believe it is correct, that we do not sell any agricultural products to Russia at this current time except for cash.

Secretary IKLE. I could stand corrected. The Agriculture witnesses would be up to date on that. I think to the entire Soviet economic system at this time no new credits are being negotiated or extended.

This is a very short, tiny summary of a process which took place over 10 years or more.

Senator MELCHER. I understand. I have been here during that 10 years, and I well understand the wheat sale to Russia and the credits that we are extending.

And to my knowledge, I do not know of any credits they are using now, and perhaps even though that arrangement has gone by the boards. Those were special credits extended to the Soviet Union to buy wheat or corn afterwards.

Now, in your sentence here, "blood transfusion to our adversary", you are talking about credits extended to Russia. Now, the point of my question is this. Are you covering under our adversary all of the Iron Curtain countries including Poland?

Secretary IKLE. I think later on in the testimony, maybe to clarify I summarized here, I talk about the Soviet economic system. Now, that gets into a very important issue and fairly complex as to what extent our giving economic assistance in the form of, say, guaranteed credits to a country in Eastern Europe that is part of the Soviet economic system, say, Poland, helps the Soviet economic system and thus might help the Soviet military buildup.

The answer to that is not that simple since we lack information because these Eastern statistics are kept secret. But we have noted that the Soviet Union found itself forced to transfer assets to Eastern Europe, particularly to Poland, for political and maybe military reasons.

So if we help the Polish economy, that means demands on the Soviet Union are lessened.

Second, of course, the East European economies are, to a greater or lesser extent, incorporated into the Soviet economy. They produce, countries like Czechoslovakia, East Germany, military equipment which goes into the Soviet military system.

Senator MELCHER. I understand all of that.

Secretary **Ikle**. So the reasons for making distinctions particularly in countries that are more outside the Soviet economic system, like Yugoslavia, there are a lot of connections.

Senator **Melcher**. I think I do not understand too clearly this interplay between the economy of Poland or Romania and Russia, but I understand the strong intertwining of their economy.

So your point, about if you can hurt the Polish economy, you also hurt the Russian economy, I understand your point. But to balance against that is that the Polish uprising has been the greatest blow at least in a decade to the solidarity, to use their own term, to the solidarity of the iron bloc countries with Russia.

They have established Solidarity as showing solidarity for Poland and as showing it separate from Russia. Now, I think the real point here, and that we are trying to unravel is, if we hurt Poland in that effort, are we, indeed, passing up the greatest opportunity the United States and the West has had during the past decade or more, to assist in at least one iron bloc country forming some sort of opposition to the Russian domination.

Secretary **Ikle**. This question you raise was, of course, a key question last year, before the imposition of the martial law, and I remember considerable agonizing about the CCC credits which were then initiated last year, because it was recognized it was a serious risk of nonpayment as has now materialized.

But in the scale of that decision we have to weigh the consideration that you mentioned precisely, that there was a movement, Solidarity, that showed independence, showed development toward a democratic process, and that it was in our broader interest of our security and of peace and of democratic development, and not to pull the rug out from under that and make, therefore, these credits available.

Of course, now that movement has now been crushed.

Senator **Melcher**. Well, I do not know that it has been crushed, but I accept your discussion on that because you perhaps have better knowledge than I do.

What attempts have been made to provide food for the Polish people, that would go directly to the Polish people without going through the government?

Secretary **Ikle**. There are the charitable organizations, and as the President explained, I believe it was last December that kind of flow of food that can go I think as he put it, to the people and not to the jailers, should be continued.

Senator **Melcher**. What has been done about it?

Secretary **Ikle**. The specifics I would have to refer to other witnesses.

Senator **Melcher**. Thank you.

The **Chairman**. Secretary Ikle, before you leave, let me ask you just one final question. Are you familiar with the French trading company named Interagra?

Secretary **Ikle**. No; I am not, Senator.

The **Chairman**. Well, I have been advised that this is a company that handles a rather massive agricultural trade with the Soviet bloc, and I understand that it is an instrument of the French Communist Party.

And while you and Jim Buckley are over there in Europe, if you could check on that and let me know whether my information is correct, I would appreciate it.

Thank you very much for appearing this morning, and I hope you have a fine trip.

Secretary **Ikle**. Thank you, Mr. Chairman.

Thank you, Senator Melcher.

The **Chairman**. From this point on, because we have so many distinguished witnesses and the Chair is inclined to go off in flights of rhetoric, I ask the staff to put the clock on me and hold me to 10 minutes of questioning.

Next is a panel of three distinguished gentlemen, Mr. Thomas Hammer, Deputy Under Secretary for International Affairs and Commodity Programs, USDA, Mr. Richard McNamar, Deputy Secretary of the Treasury, and Bob Hormats, who is Assistant Secretary for Economic and Business Affairs in the Department of State.

If you gentlemen will come forward. We greet you with appreciation and welcome. You may summarize your statements with the understanding that the statement by each of you will be printed in the record in its entirety. You may proceed.

STATEMENT OF THOMAS HAMMER, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Secretary **Hammer**. Mr. Chairman, thank you.

First of all, let me say that I welcome these hearings and applaud your leadership because this is an area that, with my limited experience in Government which has been the last year or so, as much misunderstanding about this entire subject as anything I have dealt with.

So it is in that vein that I will submit my testimony which is very brief. As I am sure you are aware, USDA has submitted answers to your questions regarding CCC's credit activities in the Eastern bloc.[1]

We have also submitted for the record a copy of our statement outlining CCC's legal authority to offer to the banks on January 28 an alternative approach to our normal regulations.[1]

We are prepared to answer any questions that you or anyone on the committee might have.

I would like to start by making a couple of basic points and clarify perhaps some questions which were asked earlier pertaining to Agriculture and the Commodity Credit Corporation and perhaps I can shed some light on those.

First of all, I would like to say in connection with our recent offering to the banks, we feel and are sure that we have in no way exceeded the legal bounds or authorities of our Commodity Credit Corporation charter.

I would like to say that nothing that has been done in connection with our recent offer to the banks has placed the taxpayer in any less position; that is, we have not paid out at any quicker or faster rate than we would have under our normal regulations.

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[1] See p. 59 for the prepared statement of Mr. Hammer, p. 59 for answers to questions from Senator Helms, and p. 62 for an outline of CCC's legal authority.

Nothing has been done in any way to limit the options that the U.S. Government as a whole has in connection with the Commodity Credit Corporation activities.

We can, in fact, withdraw this offer to the banks at any time, and I must say that any bank or financial institution that we are dealing with in terms of these credit guarantees is still free to use the standard procedures other than the modified ones which we proposed to them.

In connection with the $71 million figure that has been used so widely, this figure represents the sum total of principal and interest payments that were coming due under our credit guarantee program in the month of January.

It is a great misunderstanding, but to date, of those payments coming due, and we have payments coming due in every month, which we can outline for you, for example, what they would be for each month, we have only paid out $153,000 to a specific bank that has put a claim to us saying that their payment has been missed.

There was another bank, actually a trading company, which submitted a claim to us for roughly $450,000. We paid that, and subsequently, in turn, they informed us that they had received their payment from the Polish central bank, and they paid us back immediately.

So I suppose in summary what I would like to say is that in no way have we modified the payment stream that we would have made to banks. I think it must be clearly understood, Mr. Chairman, that we had an obligation to these banks to pay off in the event that a payment was missed by the Polish Government or any other government that we are dealing with in the credit program.

We have so done this in accordance with our contractual obligations.

With that, Mr. Chairman, I know there are many questions that remain, and I would rather not try to anticipate what those questions are, but answer any questions you might have.

The **Chairman**. I want to thank you.

Let us set Poland aside for a moment, and I understand you have not made any payments for January.

Secretary **Hammer**. The $153,000.

The **Chairman**. Is that the only one?

Secretary **Hammer**. Yes, sir.

The **Chairman**. How about the other Soviet bloc nations?

Secretary **Hammer**. Also widely reported in the press and again somewhat misunderstood were the payments in connection with Commodity Credit Corporation activities in Romania.

When I talked about our January payments with Poland, those were credit guarantees. We also have had—but we do not have at this time—a direct credit program.

In Romania, we did have a direct credit program on which payments of principal and interest are still coming due. In essence, I think the simplest way to describe it, in a way that I can understand it, is that we have banks acting as our corresponding banks in the direct credit program.

On a given day when a payment is due to us, the bank forwards the payment to the Commodity Credit Corporation. If, in fact, on that same day or thereabouts they have not received payment from the bank in Poland or any other country that they are dealing with, they notify us and in essence request a refund, because they have not been paid, and they paid us in advance of receiving that payment.

We immediately refund that money to them. We did have several figures that showed up in the press. Two banks were involved with about $319,000 and $5.4 million. To date, we have collected all but $30,000 of those two figures.

The CHAIRMAN. I will defer my other 6 minutes. I think it might be well to proceed and then continue with the questioning after all three have testified.

STATEMENT OF R. T. McNAMAR, DEPUTY SECRETARY OF THE TREASURY, U.S. DEPARTMENT OF THE TREASURY

Secretary McNAMAR. Thank you, Mr. Chairman. I have a reasonably short statement. I would like to paraphrase it quickly if I might.[1]

We welcome the opportunity to present some things here today that I think do need some clarification and are of interest to the committee.

We have also submitted some written answers which you already have.

What I would like to do is begin by commenting on the reasons why the administration has chosen not to declare Poland in default at this time. There has been considerable confusion and misunderstanding in the press and elsewhere regarding this decision.

Subsequent to the imposition of martial law in Poland on December 13, 1981, the United States and other official creditors decided to take the following initial steps to bring financial pressure to bear on the military government of Poland.

One, government credit and export guarantees, except those of a humanitarian nature, were terminated;

Two, the 1982 Polish debt rescheduling discussions were indefinitely suspended; and

Three, the official creditors insisted that Poland meet its 1982 obligations as they fall due and pay up the arrearages on 1981 obligations that were not previously rescheduled.

We have taken a number of additional steps that I think you are well aware of. By taking these financial steps, we instituted a process so that money is now flowing from Poland to the West rather than from the West to Poland as was the case during the last several years.

By adhering to a policy of insisting on repayment while not providing any new funds, private lenders have also severely curtailed lending to Poland, we are creating a situation that maintains financial pressure on the Polish military regime and through them on the Soviet Union.

Some have argued that a formal declaration of default would serve to curtail financial credit to Poland. There are no credits going to Poland at this time.

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[1] See p. 78 for the prepared statement of Mr. McNamar.

And some of the other Soviet bloc countries which are experiencing serious economic and financial problems are finding it increasingly difficult to borrow in the West.

Although a formal declaration of default would not affect Poland's legal obligation to repay its debt to U.S. lenders, the Polish Government could use it as an excuse to attempt to avoid paying U.S. lenders.

In turn, this would make scarce hard currency available to pay for additional imports which they otherwise could not purchase.

Some have suggested that the United States should declare Poland in default on its obligations and satisfy these obligations by attaching Polish assets in the West.

While the United States could attempt to recover some of the funds it loaned to Poland in this way, there are virtually no Polish assets in the West. In fact, the court cost involved in such an effort might even exceed the value of the property attached.

In short, we have opted for an approach that is draining resources out of Poland rather than taking what would be essentially a symbolic gesture, namely, declaring default.

And by not declaring Poland in default and continuing to insist on their meeting their obligations, we are also indirectly bringing additional financial pressure to bear on the Soviet Union, the real instigator of the repressive regime in Poland.

As a result of not declaring the default, the Soviets are now pressured to provide additional economic resources to keep the Polish economy functioning at some minimal acceptable level and to assist the Poles in meeting their hard currency debt service payments to avoid further damage to Poland, the other Eastern bloc countries, and the Soviet Union itself.

I could comment briefly on the CCC export credit program but I will skip that in the interest of time since Mr. Hammer has already gone over that.

I think that the one point I would make is that the foreign borrower is in no way relieved of any obligation that it has to us under the CCC program. That obligation still exists.

And I would distinguish among the following: the notice of default, a formal definition of default in a loan agreement, and the triggering of specific provisions in a loan agreement that would declare the entire debt to be immediately due and payable. There is an important distinction there.

The key point to be made is that although the underlying credit agreement between the exporter and the foreign bank may permit the exporter to declare a formal default in the event of a missed payment, CCC does not require the guarantee holder to declare a formal default in order to trigger CCC's preexisting liability.

The CCC simply requires prompt notice that a payment has been missed to meet its obligation to honor its guarantees.

I will stop here, Mr. Chairman, in the interest of time and answer any questions that the committee has.

The CHAIRMAN. Thank you, Mr. McNamar.

Mr. Hormats.

STATEMENT OF ROBERT HORMATS, ASSISTANT SECRETARY FOR ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE

Secretary HORMATS. Thank you, Mr. Chairman.

I, too, will try to summarize very briefly the highlights of the statement and submit the rest for the record with your permission.[1]

First, let me just outline very briefly the general policy that this administration has taken toward the Soviet Union and its allies. The administration came to office with and continues to adhere to a firmly held view that East-West relations must be a two-way street.

The Soviets, in particular, must recognize that aggression and adventurism abroad and/or violations of human rights or treaty obligations must affect economic and political relations.

We are determined, therefore, that the repression of the Polish people, which we and our allies agree that the Soviet Union supports and encourages, must be met with a firm and unified Western response.

We and our allies have taken a number of measures designed to impose costs on the Polish and the Soviet Governments for the repression of the Polish people.

These are designed to maintain pressure against the suppression of human rights and Solidarity in Poland and toward a lifting of martial law, release of the political prisoners, and a genuine dialog with Solidarity.

We have taken a number of measures, as have our allies. The most recent action was a decision by the European Community to restrict imports from the Soviet Union into Western Europe; additional measures are also being discussed.

The events of the past 18 months in Poland demonstrate beyond question that the Soviet-imposed economic and political system there is an empty failure.

A Communist party which has lost both legitimacy and effectiveness has to be rescued by the military. The Soviets, of course, hope that this failure will be masked by divisive strains in the Western alliance.

They are trying hard to create discord between the United States and Europe in order to transform their failure in the East into a failure of unity in the West.

We and our allies are determined that this will not happen. Our common objective is to strengthen the alliance and apply sustained pressure on the Polish military regime and on the Soviet Union.

This will demonstrate to the Soviets our unity of purpose in imposing costs on them for flagrant violations of accepted international conduct.

Mr. Hammer will be explaining the CCC program in greater detail, but I would just like to make a couple of general points. First, one of the major problems for the Polish economy was that it neglected its agricultural sector.

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[1] See p. 84 for the prepared statement of Mr. Hormats.

This resulted in the importation of substantial quantities of agricultural goods. As a result of larger food requirements, Poland has been a significant market for U.S. agricultural commodities.

U.S. sales to Poland over the last 25 years have totaled $5.3 billion. Of this amount the CCC financing supported roughly $2.6 billion in sales, and commercial transactions accounted for the remaining $2.7 billion.

This is a substantial amount of money, and I think it is clear that early on in this period CCC financing was seen mainly as a means of establishing a share of what seemed likely to be an important export market.

In 1980 and 1981, of course, we were also motivated by a desire to help prevent the then beginning liberalization of Polish society from foundering on the rocks of economic privation.

The CCC credit guarantees for commodity imports were on 3-year terms. Since 1978, our CCC credits and guarantees to Poland totaled about $2.1 billion.

Deputy Secretary McNamar has indicated the position on the question of rescheduling. A rescheduling was undertaken in 1981. The U.S. share of that rescheduling amounted to something on the order of $380 million, of which $360 million belonged to the CCC.

Poland repaid about half of the unrescheduled amount it owed the U.S. Government before the imposition of martial law. It has not made any payments since the outset of martial law.

Poland has also been negotiating rescheduling with private creditors. This is not yet signed because the banks are insisting that all past due 1981 interest be paid before they formally sign the 1981 rescheduling.

Let me just turn now to the question of the debt issue for a moment. The NATO allies in many discussions have indicated their firm resolve that one of the most effective common tools to keep sustained pressure on Poland, and indirectly on the Soviets, is to continue to insist that the Polish Government repay its debts.

The Polish financial situation as we know is precarious. The government continues to make some payments, although partially and slowly. These payments divert scarce foreign exchange from the purchase of imports needed to run the Polish economy.

Accordingly, insisting on payment increases the economic pressure on the Poles. This, in turn, means more pressure on the Soviet Union. The more the Poles pay the less foreign exchange they have to import goods from the West and the greater the pressure on the Soviets to provide the Poles with the goods they need.

An official declaration of default, while not legally absolving Poland from the obligations to repay, as Mr. McNamar has indicated, could give the Polish Government a political excuse for not making payments.

In fact, the Poles might elect to stop paying only those creditors that called default. Unlike in the case of Iran, only a few assets might be seized in the event of a default, and they would be extremely difficult to attach legally.

However, a declaration of default, of course, remains an option we can use if circumstances warrant.

Let me simply conclude, because the committee staff has asked that I do so, by discussing a bit of the climate in the other countries of Eastern Europe which, in part, are agricultural markets for our exports.

I think it is fair to say the Polish economic situation is by far the worst of the Eastern European countries. Their debt service ratio is 157 percent. The debt service ratio of the other Eastern European countries combined is roughly 39 percent, considerably smaller.

I will not go into all the details of the situation in Eastern Europe except to say that some of these countries are smaller importers of U.S. agricultural products than Poland, but all of them have considerably smaller debt service ratios.

The difficulty, of course, is that some of these countries are facing liquidity squeezes and may have to make difficult choices concerning the allocation of scarce foreign exchange resources between food and nonfood imports.

The Soviet Union as well may encounter a similar dilemma. The Soviet Union's debt service ratio is only about 15 percent at present but is likely to rise sharply over the next few years if the Soviets attempt to maintain their current 3 percent growth in import volume.

The Soviets will probably have a continuing need for something on the order of 35 to 45 million tons of grain annually to maintain their standard of living—which is lower than Poland's—and may have to choose between (a) cutting their standard of living now by reducing food imports and (b) limiting imports of capital goods necessary to enhance their productive capacity and hence their future standard of living.

Let me simply conclude by saying that we are convinced that continuing to insist that the Poles pay their debt is the best way to put effective financial pressure on Poland and on its primary supporter, the Soviet Union.

This assessment is shared at the highest levels by our allies. We are pressing and will continue to press the Polish Government hard to meet its debt service obligations.

Thank you, Mr. Chairman.

The **Chairman**. Thank you, Mr. Hormats.

As is already evident, we are having a snowstorm of figures and conjecture about what has been published and what has been stated and what you gentlemen say are the true facts.

Now, I guess there are several bottom line things. How about the assumption asserted by our allies that the Soviet Union will ultimately make good these loans?

Secretary **Hormats**. We have no reason to believe that the Soviet Union will ultimately make good outstanding Polish debt. The Poles owe something in the order of $26 billion total.

The Soviet Union is not in a very good financial situation itself, and from all the evidence we have been able to put together, the so-called umbrella theory which implies that the Soviets will pay the Polish debt simply is not accurate.

In fact, it has been disproved by the fact that a lot of Polish debt is now not being paid on time so we do not really believe the Soviets are going to pay Poland's debt.

The **Chairman**. So you do not buy the umbrella theory?

Secretary **Hormats**. No, sir.

Secretary McNamar. No, sir, not at all. I think a lot of commercial bankers did, and I suspect they are having second thoughts.

The Chairman. You think they are going to be eating an umbrella then.

Secretary Hormats. Well, at least the rain will be getting them.

The Chairman. Now, I continue to hear that if Poland is made to default this would only drive Poland more closely into the arms of the Soviet Union. Well, they are already in the arms of the Soviet Union.

Do you agree with that? How would default affect that one way or another?

Secretary Hormats. I would say that, no doubt, as a result of the fact that the Soviets have supported the repression, indeed, encouraged the repression of Poland and the close working relationship between General Jaruzelski and the leaders in the Kremlin, the Poles are very much together with the Soviet Union and the Soviets are encouraging it and supporting it.

I think the real issue here is not that a formal declaration of default would drive them into the arms of the Soviet Union; the real question is how do we put the most pressure on the Poles and on the Soviet Union.

That is the paramount issue in our own minds, and as Mr. McNamar said, the more we can get the Poles to pay their debts to the West the less hard currency they have and the more they are going to have to rely on the Soviets for goods that they cannot purchase in the West with cash.

So in a way, it puts more pressure on the Soviets to insist that the Poles pay even though it is a small amount. To the extent the Poles pay hard currency to the West that is an additional pressure on both them and on the Soviet Union.

Secretary McNamar. It really seems clear that if we declared default right now, we would not add any additional financial pressure on the Polish Government. We have money flowing from the East to the West now, and that is the situation that we want to be in.

The Chairman. I am not sure I can pronounce Mr. R-o-h-a-t-y-n's name. Are you familiar with his testimony on February 23 before the Senate Banking Comittee?

Secretary McNamar. I am sorry. I am not.

The Chairman. He said Poland is in an economic and social shamble. The fact is that Poland is bankrupt, unable to meet its obligations becoming due and so forth, and I ask that all of this be printed in the record, but I am going to summarize in the interest of time.

He cited evidence that indicates that Poland will require $1½ billion of new external debt every quarter this year for a total of an additional $6 billion in 1982. Is that approximately correct?

Secretary McNamar. I would think that is in the proper range, yes.

The Chairman. And he said that these numbers are likely understated and that, and I am quoting him, "Poland will require a minimum of $15 to $20 billion in additional credits over the next 2 or 3 years."

He said, "It is pointless to speak of any repayment of past debt, principal or interest, without asking where the new credits will come from, and what kind of probe will be required to make them commercially viable."

Now, it may be pointless to ask where those repayments are going to come from but I am going to ask anyhow.

Secretary McNAMAR. I think that is why the United States and the Western banks have stopped lending to Poland. What the Poles are going to have to do is to put their economy in order to make the kind of changes in their economic system that Solidarity and the West was supportive of so that they can begin to take what is, in fact, a very fertile land with a very intelligent, highly educated people and begin to produce goods for export—whether that is coal in the natural resource area or whether it happens to be machine tools—in order to generate the hard currency to service those debts.

It will require reform, and we do not want to relieve them of the obligation to reform.

The CHAIRMAN. Well, he suggested that the Western central banks should acquire the Polish debt that is now in the hands of the commercial banks, at a discount of, say, 50 percent with a final determination deferred to a plan of organization to be worked out by the Department of State. Do you agree with that?

Secretary McNAMAR. No. He was an advocate of bailing out New York City as well.

The CHAIRMAN. That was a leading question, you understand.

Secretary McNAMAR. I think that his view of managing finances is somewhat different than this administration's view.

The CHAIRMAN. I am like John Melcher. I could spend the whole day discussing this with you gentlemen.

Secretary McNAMAR. I think the point to be made, and it applies to the CCC credits is that we are not here to bail out the commercial banks.

The CCC had a preexisting obligation that was exercised. It was a Government guarantee.

The CHAIRMAN. I have, as I indicated, a number of questions which we will file in writing to you, and I am going to yield back the balance of my time and turn it over to Senator Melcher.

Senator MELCHER. Thank you, Mr. Chairman. I gather that what we have heard so far has to be the position of the administration. I do not think you can say you have got Treasury, Agriculture, Defense, and State Department, testifying here before us today without saying that the sum and substance of that is the administration position.

So I am going to have it clarified and not be fencing about. Well, what does the President really want? What are we doing at the White House? What, directly, is the policy? So I think we are getting that here.

Now, it amazes me that we talked about El Salvador, as a former witness just did, enunciating the policy of the administration which is very clear to send arms to El Salvador. Another $100 million, I believe, we are being asked to pump in there this year.

And that that is a contrast with what is involved here. I am having difficulty finding the contrast because we are, frankly, talking today about repayments to CCC, guaranteed or direct, that is, for food. And then contrasting that to what a former witness testified as our friend—or friends in El Salvador. And I guess that is the one side in El Salvador is our friends and we are not sending food, but sending arms, and not sending it under any circumstances that I understand would be repaid. It is a grant.

If I am wrong, correct me. How would that ever be repaid?

Secretary **Hormats**. I am afraid I do not know. We will try to get you an answer for that.

Senator **Melcher**. Well, I think it is fair to say that Congress is going to consider it and authorize direct military grants.

So I think this contrast is ridiculous. What we are involved with here, as I understand, Mr. Hormats, is that there is a hundred—or $1.6 billion owed CCC either direct or guaranteed.

Now, it states somewhere following that, that some of that has been repaid. Now, how much of that has been repaid? This is $1.6 billion as of March 1981. How much has been repaid?

Secretary **Hormats**. Mr. Hammer can speak to that in detail. I do not have all the numbers in detail here, but we can get it.

Senator **Melcher**. It is your testimony that I am reading from.

Secretary **Hormats**. The general number is that about half of the nonrescheduled money due in 1981 was repaid.

Senator **Melcher**. Well, not all of the $1.6 billion was rescheduled, was it?

Secretary **Hormats**. That is right. We rescheduled 90 percent of payment due in 1981; 10 percent was to be repaid, of that, about half, to my recollection, has been repaid.

Senator **Melcher**. All right, now. Mr. Hammer, can you verify that, that out of the $506 million outstanding and direct, CCC loans has been repaid since March 1?

Secretary **Hammer**. Let me attempt to reclarify that. At the current moment—and I think our figures are accurate, but it always depends on which base—whether you are working from March 31.

Senator **Melcher**. I am operating from the base of the testimony given just now by Mr. Hormats.

Secretary **Hammer**. And I am not certain, Senator, which base he used. But we have outstanding, at this point in time, export credit sales, which is our direct credit, $540 million. In the guarantee program we have $1,073 million so that approximates the $1.6 billion figure that you are using.

We rescheduled our credits and direct sales up to December 31, 1981—there has been no rescheduling of debt coming due after that date. There was some $350 million, roughly, that was rescheduled; we rescheduled 90 percent of that. Those payments are to begin sometime in the future, I believe around 1986 to be made in certain rescheduled payments.

We have had 10 percent of that which was not rescheduled and has come due. And of that, they have not paid, oh, some portion of that. I am not sure I know exactly what portion of that 10 percent, but that is the figure which would be in the arrears, if you will, because we have rescheduled in a predetermined manner the rest of the debt.

Senator **Melcher**. We will struggle with what is in arrears at a different point. But what we need to understand right now is the amount owed CCC direct. Is it $561 million or less?

Secretary HAMMER. $540.2 million.

Senator MELCHER. $540 million right now?

Secretary HAMMER. Right now.

Senator MELCHER. All right. That is direct. And the guaranteed is still over $1 billion?

Secretary HAMMER. $1,073 million.

Senator MELCHER. So, roughly, $1.6 billion is owed by Poland?

Secretary HAMMER. Yes, sir.

Senator MELCHER. As of now?

Secretary HAMMER. As of this date.

Senator MELCHER. Either direct or guaranteed?

Secretary HAMMER. That is correct, sir.

Senator MELCHER. The greater amount, of course, is the guaranteed, and that is slightly over $1 billion. All right.

Now, it is coming through loud and clear and, perhaps, correctly—perhaps it is good policy—that the policy right now is against Poland to use a—I will call it a hard currency or gold type of diplomacy to force the payment because that will have an adverse effect on Russia, is that correct?

Secretary McNAMAR. That is correct.

Senator MELCHER. All right.

Secretary McNAMAR. May I amplify on that point, please, Senator? That is one of the options the Buckley mission will be discussing in Europe with our allies. There are a number of other issues related to the pipeline that they will also be discussing.

Senator MELCHER. It is intertwined.

Secretary McNAMAR. Yes. But we are——.

Senator MELCHER. That is the policy.

Secretary McNAMAR. That is one aspect of policy, yes.

Senator MELCHER. Well, yes, but as to this loan here for food, that is a policy?

Secretary McNAMAR. Right.

Senator MELCHER. Now, I want to get to another point. A lot of us feel over the 20 years or so it was very clearly enunciated by Secretary Block before he became Secretary of Agriculture that he felt there was a great opportunity for the country to use food as a "weapon" of diplomacy; food diplomacy, I will simplify it.

Now, a lot of us have shared that idea on how does that relate. We have had food for peace, we have had huge export sales of food. How does that relate to our overall policy, country by country, and the world in general.

I think I do not see where it helps us in this policy forcing the hard currency payments, gold, if you will, on Russia to back up Poland. How it would serve our purposes in the process—the Polish people weakened by starvation, malnutrition—let us say just outright hunger. Those long food lines are not anything that is contrived, they are real, we know that.

How would it help us—I think this is almost a rhetorical question—how would it help us to weaken the will of Solidarity, the Polish people, to revolt against the tyranny of Russia by getting them weaker in spirit and in flesh and in, indeed, nutritional capability? That is a rhetorical question, is is not? It does not help us, does it?

Secretary HAMMER. I suppose it so happens, Senator, that, in this respect, the foreign policy interests coincide identically with the interest of Commodity Credit Corporation. As you mentioned earlier with El Salvador, these were not grants, these were credits. They were obligations which when they come due, are expected to be paid.

Senator MELCHER. These with Poland?

Secretary HAMMER. With Poland, yes, sir.

Senator MELCHER. Are credits, not grants.

Secretary HAMMER. And the interest of the Commodity Credit Corporation is to regain those payments on a timely basis. We had come to the conclusion—the Commodity Credit Corporation I will speak for—I think it was generally subscribed to in the rest of the Government. But I know in the Commodity Credit Corporation, even before martial law was invoked, we could see the financial trouble writing on the wall, and it made a conscious decision to extend no more Commodity Credit Corporation loans to Poland, not because we do not have, as you well know, Senator, plenty of commodities to move in this country, but because they were not a good financial risk. And, basically, it looked like we were making loans on commodities for which we would never receive payment.

Senator MELCHER. Then I want to suggest that we can have it both ways. CCC can pressure, this Government policy can pressure, the repayment, to do exactly what you have been describing, to keep the pressure on Poland, hence, to Russia, to use hard currency or gold to make good on those debts.

But we can have it the other way, too. We should be seeking to get food directly to the people of Poland, food for peace is available, and there is no reason why it cannot be used, no reason why it should not be used.

We have the good offices, I understand, of the Pope himself, a Pole himself, we have the good offices of the Catholic Church, which is still alive, strong and vital and vigorous within the country of Poland.

We have the dairy products which we have been told are coming in so fast into CCC that it is cheaper to move them out and distribute them than to pay the storage. We have excess wheat, we have excess corn. I am suggesting we can have this both ways, as a matter of American policy, to use both Food for Peace in order to help the people of Poland itself, help keep the spark that is really more than a spark, this flame of rebellion growing, growing in the Polish people through the Solidarity movement, and still pressure for the money that is due. We have done it before, we can do it again.

The CHAIRMAN. I suggest we go on another 10-minute round. You continue with yours, and then I will take it for whatever I need.

Senator MELCHER. I am suggesting that that is possible. Is it not possible?

Secretary HAMMER. Senator, I think, at least from the Department of Agriculture, we have attempted to look at every avenue because it behooves us to move the surplus commodities, be they in Government hands or in the private trade, as they are at this current time.

You mentioned Public Law 480; I would suggest that we have certain limitations. One happens to be that Poland exceeds by a vast amount the 75-percent limitation that we have which restricts our lending of 75 percent of that money to countries below $690 per capita income. Other countries we have longstanding relationships with take up the other 25 percent to a major degree.

So unless we were to find extra money in Public Law 480, we simply could not move any quantity that would be meaningful to the Poles at all.

The other one you mentioned is the one, also of repayment to the Commodity Credit Corporation, that is, we must find ways to get paid for these commodities if we move them out of the Commodity Credit Corporation. And we have, in fact, done that on a limited scale through the charitable organizations, as you mentioned.

We had come to the conclusion, again before martial law, that if we were to help the Poles, we were going to have to seek foreign assistance for the Polish people as a whole, which would require congressional authorization. We, of course, in Agriculture would have been a major beneficiary of that because we think it would have been largely agricultural commodities.

We would have had to take the initiative to do so with the Congress. And I think it is determined, at this point in time, because of our relationship between the two governments, that that was not a factor which we were going to pursue at the time. But I probably should not speak to that matter as it is not in my domain.

Secretary **HORMATS**. Just one thought following up on what Mr. Hammer said, there is, as he has indicated, a certain amount of humanitarian assistance in the pipeline and moving.

We made a distinction when martial law was declared on the 13th of December to the effect that we would not provide any assistance that would benefit the Government of Poland as opposed to the people of Poland. And we worked very closely with Solidarity and with the Catholic Church on this.

And the policy now is to provide assistance so long as we can be sure that assistance gets to the destination that it is intended to go to; that is, if the church can distribute it, if Catholic Relief Services or Care or the Red Cross can distribute it, then it will go. If it is going to go into the hands of the Government without a reasonable expectation it can get to the people of Poland, then we will not participate in financing of it.

Senator **MELCHER**. Well, let me just add that my knowledge of Public Law 480, particularly title II, permits me to say I think I have a much broader flexibility than you have demonstrated under title I. Title II will permit you to do that.

I have witnessed on television news reports, as I am sure all of you have witnessed, the people lining up in Chicago or lining up in other places with packages to be shipped individually to people in Poland at huge costs, by the way, which could be arranged for much cheaper under title II and accomplish exactly the same purpose and accomplish what I think is what I have directly been describing. Why do you not go ahead with pressuring for the cash, but at the same time, providing the food for the people in Poland? And we have the mechanisms already there and available, let us use it. That is what I am saying.

I will be glad to introduce a bill in the Senate, if you think you need more authority. But under title II, I think it is already there.

Secretary **Hammer**. I agree, under title II we would have the existing authority. But we are also dealing with a fixed sum of money—and I have sat through many difficult meetings at which time we tried to allocate to the countries that we wanted to deal with under that program, and it would be possibly a case of robbing Peter to pay Paul.

Senator **Melcher**. I do not believe that because we—I repeat—we have had testimony by the Department of Agriculture by the Food and Nutrition Service and it is costing more on milk products alone to bring them into storage, pay the storage charges, than if they were being distributed.

This, I believe, is in the national interest. And I daresay that any bill that you need passed to expedite exactly what I have been saying here or providing food for the Polish people will pass overwhelmingly compared to the request that the President has either sent or is going to send us to give $100 million of military arms to El Salvador. I do not know whether that will pass. I have my doubts if that will pass.

But I think this would pass overwhelmingly if you think there is needed additional legislation to free up more funds under title II for food.

Secretary **Hormats**. I believe there is a title II pipeline; some of the food has not yet been delivered but is moving. Is that not correct?

Secretary **Hammer**. It is moving.

Senator **Melcher**. It is moving, just as the cheese is moving—surplus cheese is moving out to the senior citizens centers and to the hungry people throughout this country. It is moving out in little drips and drabs.

And I am suggesting that this is good national policy, that you can have it both ways for once. And I do not know why you do not make this President a hero to the Polish people and, perhaps, use the most dramatic opportunity this country has had in the last decade or more, to form a permanent wedge between an Iron Curtain country, namely Poland, and the Russian domination which it suffers under. Thank you very much, Mr. Chairman.

The **Chairman**. Mr. Hammer, when did the Department become aware that Poland was experiencing some difficulty in meeting its loan obligations to CCC and to the American banks?

Secretary **Hammer**. Well, I suppose, first of all, I can only talk from personal experience. I suppose my first knowledge of it, we had an approximately $670 million authorization which we had agreed to—in fact, even before my arrival here in the Department—for Poland.

And when we got down to a point where there was about $113 million left, we found that a number of banks were beginning to become somewhat cautious about the lending.

The **Chairman**. When was this?

Secretary **Hammer**. I would say this was in the spring or summer of last year. It also coincided with the fact that there was a Western governments rescheduling going on at that same time.

So it was becoming obvious to us at that point in time that the Polish situation was, in fact, somewhat difficult as it related to credit. And that is about the same time we came to the conclusion that we would not be able to give them further assistance under the Commodity Credit Corporation.

The CHAIRMAN. Well, were any GS 101 or 102 guarantees or any direct loans made to Poland after the recognition of this poor credit standing?

Secretary HAMMER. It is safe to say that we did not extend any Commodity Credit Corporation loans over the $670 million but we did try to move that, which was still in the process of being programed when I came. There was a very small amount, perhaps $55 million worth, that was granted to Poland under our Public Law 480 program. We did that at the end of the year.

First of all, our credit terms were more in line with what we thought Poland could tolerate. But also, by the end of the year, we found that because commodity prices had been somewhat softer than expected, we had programed the amount of volume that we wanted in Public Law 480 and had some extra dollars left. We did use that. That is the only extra lending we did.

The CHAIRMAN. Talking about that $1.6 billion that Senator Melcher mentioned a moment ago, that Poland owes under the CCC direct credit and loan guarantee program.

Now, really, what is the Department's assessment of the likelihood of repayment of this $1.6 billion?

Secretary HAMMER. Senator, I cannot give you an honest answer to that. But my honest impression—I do not know the answer to it—is that there is a likelihood that we will be paid that money. And in some cases, I have had a number of banks tell me lately—we have seen it in Romania, I have seen it with other banks—that they were about ready to enter a claims procedure. And they called me and told me that they have just received interest or principal payments and with penalty interest.

And as far as my limited view of the situation is, Poland is making an honest effort to make good on these obligations to the West.

And I have a feeling that we will probably see continued progress in that vein. But I am not an expert on the financial situation of Poland and would hesitate to say that I am, sir.

The CHAIRMAN. If you would please comment on that in your written answers to other questions. Now, let me be clear in my own mind—does this administration envision new loans, new guarantees, to Poland in 1982 or 1983?

Secretary HAMMER. I can only say, from our point of view, first of all, we do have government-to-government lending in abeyance. And until that situation clarifies, there will be no government-to-government credits. Also, until the economic situation clarifies itself, Commodity Credit Corporation loans at 3-year terms and at something close to 16- or 17-percent interest is not in the best interest of the Poles or, really, of the Commodity Credit Corporation at this time.

The CHAIRMAN. Well, you realize the circle you are walking on this. And I am not trying to pin you down, but I would like to have a more definitive answer than that. But I can understand that, perhaps, you cannot give it, certainly not this morning.

Let me ask you this. My understanding is that the CCC has offered to repurchase its obligations from holders of CCC guarantees without requiring the holders to submit the official notice of default documents provided for in the legislation; is that correct?

Secretary HAMMER. Yes, sir; that is correct.

The CHAIRMAN. I believe it is generally agreed that the repurchase procedures that the CCC board has elected to follow is not specifically provided for in the CCC regulations but that it is not specifically prohibited either, is that correct?

Secretary HAMMER. We feel that our authorities are sufficiently broad to offer this modification, and yes, your impression is correct, sir.

The CHAIRMAN. But the regulations do set forth a specific procedure which a guarantee holder must follow in order to receive payment from the CCC on claims, is that correct?

Secretary HAMMER. Under the ordinary circumstances, yes. I would just, I suppose, quibble with the word "must" because we feel we had, as I said, sufficient authority to modify those regulations or requirements.

The CHAIRMAN. Let me check my understanding about a little scenario that is supposed to have occurred. It is my understanding that CCC made an effort on January 28 to induce banks holding Polish debt not to issue notices of default on overdue loans and that the banks were offered two options.

Option 1, CCC offered to repurchase the obligations at a price equal to the full amount of the CCC's obligation to include all of the principal and 6 percent of the interest.

In return, the bank then had to assign its rights over to the CCC on all remaining interest and the bank does not have further rights to try to collect the unrecovered portion. That is the first option.

The second option, as I understand it, the CCC pays the banks the full amount of the principal but none of the interest. The CCC then has no further liability on its interest obligation, and the banks have the right to collect the full interest due on the loan from Poland; is that correct?

Secretary HAMMER. That is correct, sir.

The CHAIRMAN. So my question is do you plan to make further offers to the banks to sweeten the deal, to change it or whatever?

Secretary HAMMER. Senator, there is no consideration of sweetening the deal for the banks. As I said earlier, what we have constructed here, option A, is identically how we would have operated under our standard procedures.

Option B is a call that we left to the banks, but if, in fact, they accepted it, we thought it could, under certain circumstances, put the taxpayer even in a better position.

That is, under option A, we were obligated for 100 percent of the principal and 6 points of the interest. Under option B, we were only obligated for 100 percent of the principal and would not have to pay on the interest.

The bank then would only have accepted option B if it felt that it had a considerably better opportunity to collect the interest than did the Commodity Credit Corporation.

So far no one has accepted option B, but I remain convinced that if they do, we can say with an honest face that we have constructed a better deal for our cash flow situation.

But there is no intent at this time nor do I feel that there will be, to construct a different or, in fact, a sweeter deal for the banks. That is not something that we are interested in doing.

The CHAIRMAN. Well, Mr. Hammer, you know where I end up in terms of your testimony, and I know this is a tough, tough thing for you to try to handle. But on the one hand I hear that we are going to keep pressure on the Poles, and if you do that, there is some likelihood that they may pay their debts.

Then on the other hand, the very clear message comes to me that default is inevitable. So you are on the horns of a dilemma, and I do not know precisely how to write the bottom line of your testimony.

I know you come here in good faith, and you stated the facts as you understand them to be, and I do not quibble with that, and I know that this is an inherited situation, and I am not balancing a political ball at all.

But did not most of this CCC commitment to Poland occur before this administration?

Secretary HAMMER. Senator, the commitment to guarantee $670 million worth by Commodity Credit Corporation in the last fiscal year was, in fact, made before this administration came into office.

The CHAIRMAN. One final question that I guess a lot of people are asking. Are we taking a hard line toward the Soviet Union or what kind of a line are you taking?

Secretary McNAMAR. Let me answer that if I may, Mr. Chairman. I do not think there can be any question but that the United States is taking a hard line toward the Soviet Union.

As Senator Melcher correctly pointed out, our policy in regard to the default situation is predicated on a bifurcation of the obligations of the Polish Government versus the humanitarian needs of the Polish people. The Polish people are being ill-served by their current military government that has been imposed upon them.

What we intend to do is to work with our Western allies to develop a multilateral consensus on what should be done to reduce the hard currency flow to the Eastern bloc, and to develop a policy that provides, in effect, the stick that we need. That is what the declaration of default is about, because no one should have any doubt about the willingness of the United States, depending on subsequent events in Poland, to declare a default, no doubt whatsoever.

On the other hand, just as we have a stick that we are developing with our allies, we are determined not to act alone but to develop with them the carrots to try to bring the Polish situation down the road that we thought they were traveling before the imposition of martial law.

The CHAIRMAN. Gentlemen, I thank you very much. We appreciate your testimony.

Senator MELCHER. Thank you, gentlemen.

The CHAIRMAN. We have the distinguished former Ambassador from Poland to Japan, the Honorable Zdzislaw Rurarz.

Mr. Ambassador, we welcome you, and you may proceed with your statement.

STATEMENT OF HON. ZDZISLAW RURARZ, FORMER POLISH AMBASSADOR TO JAPAN

Ambassador RURARZ. Thank you very much, Mr. Chairman.

My statement will be an oral one. I understand that you are most interested in the solvency of Poland, whether further credits should be provided to my country, on what basis, in what amount and so on.

Let me say a few words about my involvement with the Polish economy. May I say that almost for the last 30 years I have been very closely connected with the functioning of the Polish economy both when working in the Central Committee of the Communist Party, at the Ministry of Foreign Trade, having been the economic adviser to Mr. Gierek the party boss at that time and afterward having been the economic adviser to the Ministry of Foreign Affairs and also having been professor of economics interested to a large extent in the functioning of the Polish economy, especially when it comes to Poland's trade and financial relations with the other countries, mostly with the West.

Mr. Chairman, might I say this. The Polish economy has been functioning throughout the whole postwar period in very abnormal conditions.

The system imposed on Poland by the U.S.S.R. has been throughout that period highly ineffective. Moreover the so-called alliance with the U.S.S.R. was another burden on the Polish economy.

All that has been periodically culminating in various activities of the Polish population, whether this was 1956, 1970, 1976, or 1980. All the times the hopes by the Poles to improve their standard of living was somehow renewed, postponing to the more distant future.

Besides the Poles were seeing with their own eyes what this malfunctioning of the economy was, and of course, they were making accountable not only respective individuals running the economy but the system as such.

May I say about 1970's, because this is, I think, the most interesting period in the history of Polish economy up until then, and at that time it happened that at the very beginning I was an economic adviser to Mr. Gierek who was the party boss at that time.

And I was very intimately involved into the Polish economic problems.

It was obvious that something must be done with the Polish economy. That economy despite the so-called industrialization in the whole postwar period was very weak. When you come to the industrial sector, it was highly obsolete and inefficient.

When it comes to agriculture, that agriculture was again very much obsolete, inefficient. And almost all the sectors of the economy were in a very, very poor shape.

I am not saying about the standard of living which, according to various plans, had no chance of rising. Therefore, it was decided to accelerate Poland's economy growth believing that, to a large extent, that accelerated economic growth was supposed to be financed by the credits and technology from the West.

I think this was a wise decision after all. However, the problem was that without basic reforms in the functioning of the Polish economy, that economy sooner or later will be exactly confronted with the same problems as it was in the past however on a bigger scale.

What this reference was about, there would be socialist economy in Poland as in other Eastern countries, the U.S.S.R. including, has no, how do you say?, sense of cost.

Nobody really knows what are the costs of production, what is rentable, what is not and so on and so on. So that any reform of the economy which was already moving to the state of maturity or the so-called intensive factors of production instead of extensive factors of production were to be applied should be very much, I would say, cost oriented, especially when it comes to the smaller countries like Poland which relying on their external debt were supposed to service that debt.

So it was supposed to be more, I would say, connected or introduced into the international trade network. So that, in other words, those reforms were supposed to be market oriented reforms.

May I say with all the authority because at that time I was very close to all that, there was no approval for any reform of debt service in Poland, not only by the hard liners but by the Soviets themselves.

They were absolutely opposing any basic reforms in the Polish economy which would be departing from the highly centralistic model of it, because they were believing that this is not lying in their interest.

So that there was no economic reform. So that this in itself was, how do you say?, inviting the trouble for the future. Another problem was agriculture.

As you know, Mr. Chairman, the Polish agriculture is primarily private. The collectivization drives in the past failed, and they were virtually never renewed in the 1960's or 1970's.

However, at the same time, it was believed that instead of collectivization, one could proceed with the so-called expansion of state farming, state farms, by acquiring the land from individual peasants.

And even a special law was passed in the Polish Parliament saying to this effect. So that effectively by the end of 1970's about one-third of the land was already at the disposal of the government.

So, in fact, it was less than that because the state farms were unable to work on that land and was renting it back to some of the peasants.

At the same time, the private peasants were highly discouraged to expand their own production. They were denied many tools of production, starting from tractors and ending with fertilizer and pesticides and so on.

So that all together this has brought a disaster to the Polish agriculture. May I say that Poland has moved from the position of net exporter of agriculture products—the last such surplus was in 1973—to net importer position.

I would say that for about 40 percent of the Polish debt was falling on the imports of grains and other foodstuffs so that this was a very great burden to the Polish economy and that burden was caused by certain ideological considerations which were favoring state farming and discouraging individual farming.

May I say, Senator, at this moment, that despite all this discouragement to the individual farming, the cost of production in those individual farms was three times, on average, smaller than those in state farms or collectivized farms.

May I use another example? That the production of one kilogram of pork in private farms requires four kilograms of grain; in state farms, 17 kilograms, and so on and so on.

So that the Polish debt at present, that debt is partly, I would say, resulting from this very horrendous ideological approach to running the Polish economy.

Moreover, the government was quite interested in importing the grains, especially from the United States on credit terms, believing it would never be repaying those credits, because grains were directly supplied to state farms which were wasting a lot of them to raise the pigs, the special and other domestic animals. So that this was done.

Now, when it comes to the debt in general, it was believed that while they had the opportunity to acquire the credit, they should be used for the food.

The Polish planners and others who run the economy, they were fully aware that the Western commercial banks have a lot of hard money on deposit, the so-called public dollars, which they wanted to convert into medium or even long-term credits.

And they were seeking for the possible, let's say, debtors, and the banks themselves were sometimes coming with various proposals, and the Polish Government and others were readily accepting them because these were settling other problems of a short-term nature to Poland.

Besides it was believed that as long as the interest rate is equal or even below inflation rate, such credits really cost nothing. Nobody was believing in any repayment of principal.

It was believed that it would be held over until, well, I don't know when. It was not believed and it was rather believed that let the creditors worry about that. That was the first explanation.

And second, that, in fact, we are too much squeezed to repay those credits. Certainly the situation will be deteriorating in Poland, and if there is any sort of problem in Poland, everybody would be coming to help or rescue because nobody is really interested in any trouble in Poland so that we would be getting those credits. This was the understanding.

I must say that I am familiar with many views here that they try to justify why Poland is behind in meeting her obligations when it comes to the servicing of debt, and these are childish arguments sometimes and I guess more than that, because not only the bad crops or the depression of the world market or something like that, this was the malfunction of détente.

Many of the investments which were started in Poland were really deprived of any economic sense, and as I earlier mentioned, a large part of this debt was the grains which were eaten, disposed in an obvious way and of course, leaving nothing for the future.

So that this was very obvious that the economy is becoming in a bad shape, to be in a very bad shape. And the first strains in the Polish economy, as a matter of fact, appear in 1973, 1974 already.

May I say that by the end of 1972 I specifically resigned from being the adviser to Mr. Gierek because I was anticipating that disaster which was looming on the horizon. Nobody was, however, believing it at that time that this could be the effect.

Of course, the least, it was the commercial banks which were delaying in that disaster. But that is their worry. And the government, the Western governments, I understand that, believing in this policy of détente and so on, were also offering various credits and so on.

Now, there is a problem. Well, with obvious responsibility, Mr. Chairman, I must say that there is no slight chance that Poland would be in a position to repay those debts.

In that paper Poland was submitting last April to the group of 15 in Paris, Poland, at that time, the representatives of Poland, presented the paper, and the level of debt was believed to reach $33.5 billion by 1985 and probably afterwards that debt would start to be, the debt level would start to be reduced.

I must say that of that calculation involved, it was very, very imprecise, and I was of the opinion, I have even a special paper which I notice as a commentary, as a comment on that paper, is that in Paris, I was absolutely not believing in that optimism.

And I think now even I believe much less in that optimism.

Let me say, Mr. Chairman, this. Poland normally, in normal times, was importing from the West—as the West, I cover also the level of countries non-Communist by that—something, the last normal year was 1979, something like $9 billion.

At this same time the Polish exports to those non-Communist countries never went beyond $7.3 billion mark. Last year, probably, according to the preliminary estimates, net exports even fell to $5.6 billion.

The same is true of imports, because there is no money to finance some of these. So that Poland cannot really reduce very much the level of imports from the non-Communist countries if she really wants to produce not even, let us say, an increasing them, but even to help the production stagnating.

So that Poland must be obtaining some funds from the West on the rest of the debt to exist even. That is very obvious. Only this year, I believe, Poland should repay or reschedule some $11 billion, and Polish exports may be not even reaching $5 billion.

So that this $6 billion of new credit is not subject to the schedule. It is a must.

Now, when the crackdown, near the crackdown was being under preparation, the rulers of Poland at that time and the Kremlin had they known about that or not I think that this arithmetic is that much simple that they could not not know about all that.

Nevertheless, they decided to come out with the crackdown. That military crackdown has caused further deterioration in the production in Poland.

Even if the coal production has increased a bit, still the industrial production fell by another 15 percent in the last weeks, and there is probably no chance that this production will be increasing due to the passive resistence of the Polish population and some active resistence due to further, I would say, stuffing of the Polish economy with the bureaucrats who are responsible for all this disaster and with the Soviet model which still persists and so on and so on.

And the burden which Poland is carrying on her shoulders because of the alliance with the Soviets is not only not diminished but will be expanded. So that they knew about that.

Probably they also knew about that the military crackdown would cause an uproar in the West and that Poland would be denied of new credits and of rescheduling and so on.

Nevertheless, they decided to engineer the blow not only to the Polish people, to the democratic persons but to the economy as well.

And I must say that under those circumstances I do not see any slightest chance that the Polish economy will become solvent. It is up to you, whatever you will decide is the new credit with rescheduling and some.

But I have to state this other responsibility that if you do that you have to reckon with the possibility that you have to pump in the Polish economy something like another $15 billion, I mean the West, without any chance of inproving the lot of the Polish people and the functioning of the Polish economy or diminishing the Polish worker which is very much demanded by the U.S.S.R.

So you are faced with that. The Polish nation is facing the dying of democracy since 1939. On that date Poland virtually started losing independence and continues to be a country deprived of independence and freedom.

There will be the suffering of the Polish people for a long time to come. And you have to decide, Mr. Chairman, what to do with that item. If you are not making Poland default, then you will be subsidizing the Polish economy.

I heard before I started to testify that it would be maybe better to give some other chance, some assistance to Poland. I am always advocating the assistance to Poland, to the Polish people through private channels over which you can have the control but not to government.

That grain or all other assistance will be feeding the security forces, special crack units to oppress the Polish people. And by the way, here in my briefcase, I have a declaration of underground Solidarity movement.

They are clearly stating that they are making those people who collaborated with the junta and, of course, with the Soviets accountable for their crimes, that they will not escape in the future the justice.

And everybody who is committed to helping that junta, whether it is of the private commercial banks or the governments, are more or less accountable for the crimes committed against the Polish people.

This I should like to emphasize very strongly here. At this time when the Polish nation is poised for a long fight against this oppression and the Soviet domination, nobody should be coming to the rescue of the military junta.

You can be of assistance to the Polish nation, but not the military junta who is denying the most basic human rights to the Polish people.

The CHAIRMAN. Mr. Ambassador, I have sat through a lot of hearings during my 10 years, but I have never heard testimony more eloquent.

So what you are saying in part is all along the Polish Government knew that it had no intentions of repaying these loans, is that correct?

Ambassador RURARZ. Certainly, yes.

The CHAIRMAN. Do you think that should have been perfectly apparent to those who were making the loans?

Ambassador RURARZ. Well, I do not know. You know, the theory was, Senator, that what the Western bankers are really interested in is to keep the capital in flow so as long as Poland would be able to pay the interest rate on credit received, she could continue receiving the new credits endlessly.

Nobody was really very much worried about the repayment of principal. Moreover, it was even a theory that those countries really would be not very much happy in receiving that, let's say, repayment of principal, because this would present them with some, let us say, excess or surpluses of liquidity and so on, you know.

So that, well, I must say that people in Eastern Europe, they know quite well the functioning of the Western economy. You do not know the functioning of the Eastern economy as well.

The CHAIRMAN. Well, thats a problem in this country, and of course, we have our own economic distress which is growing. For the last 25 or 30 years we've had people riding that crest of inflation, so that they could borrow at a rate of interest a little less than the rate of inflation. They figured they were ahead of the game, and that is what was going on with the Polish Government.

Now, before I go further, you mentioned some documents in your briefcase. I want to offer you, sir, and encourage you to make such of those available to us and we will include them as a part of this hearing record.

Now, I will leave that judgment to you.

Ambassador RURARZ. OK.

The CHAIRMAN. But I am personally a very strong supporter of Solidarity and I wish them Godspeed. Now, Solidarity I believe has stated that the winter is yours, the spring is ours. I believe that is a proper quote.

So you foresee a continued intensified bid for freedom in Poland in the coming months?

Ambassador RURARZ. Certainly yes, Mr. Chairman. The people have never really abandoned the hope to be one day free, and I think it was an historical occasion for the leadership in Poland and for the U.S.S.R. to come to terms with the Polish nation on peaceful terms.

Solidarity was really not betting on a, let us say, a defection by Poland from socialist or from the Warsaw Pact. What they really were saying was that democratization of the life in Poland, an easing of the Soviet grip on Poland, improving certain external and internal relations and so on and so on.

And this, I would say, by historical chance was rejected by the Kremlin and by the Polish leadership. They preferred to use force in effect. They put their binder on the agenda of certainly the Polish people.

Well, the Polish nation was not, for the first time, fighting for the independence, for the freedom. I would not like to speculate now whether in the springtime or afterwards. The Poles are a much more sophisticated nation than many people believe.

They are fully aware of the fact that if they would defeat the junta which would be a rather easy undertaking, then the Soviets would move in and take on the Poles.

So that you must be very realistic approaching that. The Poles will be probably trying to resist in other possible, I would say, ways, including certainly the armed resistence if they knew it would be.

The main problem for the Polish was to keep the nation united, and none of the Polish, Solidarity, and other democratic forces, including myself, were believing that the Polish leadership would stay with the majority of the nation and would be resisting the Soviet pressure to do away with that Solidarity movement because I can state with all the responsibility that soon afterwards, after the Solidarity was established, I knew from very, very well informed sources that the Soviets had approved the existence of Solidarity and were pressing the Polish Government to do away with that movement.

But if their leadership would be resisting, then certainly I do not believe that Soviet military intervention would not be realized. Earth is not that big. The Soviets were not detached because of their military intervention against the Polish army. The army would be siding with the nation.

Well, the fifth column has decided otherwise and so on. So now it is a very delicate situation in Poland. You have to bring the army, how do you say it, closer to the interests of the people.

It may take some time. That very much depends on the further development of the situation, not only in Poland but elsewhere either in the U.S.S.R., in the United States and so on.

We shall see. I believe sure that the Polish nation will never give up and will be fighting for her freedom.

The **Chairman**. Even in the face of a Soviet invasion?

Ambassador **Rurarz**. Certainly because what is the other prospect. It is the Sovietization of the Polish people, and one day they would perish anyway because if the Soviets as Marshal Ogarkov said in his new book, and the press was reporting extensively yesterday about that, if new hostilities start, which is not totally excluded, then the Polish army certainly will be attacking the NATO countries. Do not forget, Senator, that the Polish army is the third largest army in Europe other than the Soviet and West German.

It is offensive oriented, and probably will be destroyed anyway. I know what are the NATO plans for the Poles, the bombardment by the nuclear warheads of the Polish territory, not of the Soviet Union mind you. I would think that there is a way around that.

The CHAIRMAN. In a very real sense, Solidarity is fighting the battle of freedom for the rest of us. Do you think the people of Poland have some way of knowing the intellectual, moral support that is pouring forth from the hearts of the American people?

Ambassador RURARZ. Certainly they know. They know very well, and as far as I know, and I think I know well, besides it was even I think the day before yesterday repeated on Channel 26 after some Congressmen came from Poland that the Polish nation, although they know that they suffer because of some economic sanctions by the United States, they still believe that this is a moral support to the Polish people, that you are, in this way, protesting against the military junta which is very un-Polish.

So that the Polish are not that much selfish at the time when they are denied the most basic freedoms that this could be offset with some more quickly or something like that.

They are ready to suffer, to have even more empty stomachs but not to surrender. And I think that these sanctions by the United States and by some other countries on a very much limited scale are the moral push to the Polish nation in the spirit of resistance.

The CHAIRMAN. I have several other questions but I will move on down to one specific one concerning American agricultural equipment having gone to Poland.

Now, has this largely gone to farmers with private plots or has it gone to these collectivized farms? What condition is this equipment in today?

Ambassador RURARZ. Very frankly, Senator, I am not very much aware of any agricultural equipment imported by Poland, but there are other, some fertilizer or other raw materials for production of the fertilizer, pesticides, and so on and so on.

If there is any agricultural equipment imported, it is from the U.S.S.R. These are these heavy tractors for the state farms. I am unaware of any tractors imported by Poland, although I know that Poland presently is exporting the tractors.

Besides may I say this that we better forget about the imports. When the Polish tractor factory which is near Warsaw produces a prototype of a small tractor for the private peasants which was displayed in Warsaw, soon afterward the factory was ordered to make that tractor disappear so that the private peasants could not believe that they would be ever supplied with the tractor fitting their needs.

They could buy some of the tractors only for hard currency, not for the lot. As a matter of fact, I have never heard about that. They will either acquire those hard currencies on the black market or taking the dollars and other hard currency from their relatives in the West, and in this way they were buying.

May I say, Senator, by adding to that particular problem, that Polish peasants, well, now, the situation is very much confused. Currently, you really cannot figure out what is going on in Poland.

But prior to the so-called August events of 1980, I mean the establishment of Solidarity, for the private Polish peasant there was no single, I repeat, no single agricultural item which would be able to be produced.

The prices fixed by the government were absolutely discouraging him to produce anything. So that if he really was producing anything with some credibility it was that he was selling some of his products on the free market.

This was well brought to the absurd already. At a certain level there were only some, in summary, only meat was still profitable. I am not saying about grain housing because this is not the farmers. This is another subject.

But otherwise, if he was producing grains, on the average the farmer had to subsidize the price which he was getting from the government in the amount of $4,000 per hectare which is 25 acres.

At the same time, Poland was ever more relying on the imports of grains from the West bringing it up to almost 10 million tons of grain and other foodstuff and so on.

So that this is the story.

The Chairman. A stark one, too.

Senator Melcher.

Senator MELCHER. Mr. Ambassador, I would assume that in your previous positions with the government and also as Ambassador to Japan, you were a member of the Communist Party, is that correct?

Ambassador RURARZ. I was, yes, for 37 years almost.

Senator MELCHER. Thirty-seven years. Are you from Poland?

Ambassador RURARZ. Yes, of course.

Senator MELCHER. So you have described 1939 as the end of Polish freedom.

Ambassador RURARZ. Yes, sir.

Senator MELCHER. Which is almost 43 years. I think you said August of 1939. Soon after that you became a member of the party.

Ambassador RURARZ. Well, 1945.

Senator MELCHER. Now, what are the circumstances of your asylum? How was it accomplished?

Ambassador RURARZ. Well, I understand that you are interested in why knowing about those circumstances what they were in Poland when I was joining the Communist movement and how it came about that I decided to seek the political asylum.

Well, Senator, when I was only 15-years-old at the time I was joining the Communist movement, I was, I think, a mature man at that time. People during the war time are maturing much faster, especially the war in Poland was nothing compared with that war you knew about here.

Of course, I knew that Poland was completely abandoned by the West, the United States included. We had no other choice but to accommodate somehow in the new circumstances.

The whole Polish nation could not defect to the West. Moreover the nation which was terrible during the war time could not continue the fighting. But the Polish nation was the only nation in Eastern Europe which continued to fight the Soviet domination until 1951. The last pockets of resistance were lasting that long. We lost about 100,000 people during that time.

Still, however, there was no chance of winning. I believed that somehow I have to work with the Communist movement, believing that one day that Communist movement will mature and will be serving the Polish interest.

Besides, may I say, and this might be a digression from my statement, but you and the people in the West accepted readily the eastern frontier by Poland. You were not prepared to accept the western frontier of Poland.

Only the Communists at that time and the U.S.S.R. were saying about that western frontier. I always believed that staying with the Communist was actually a Polish movement because otherwise denied the western territories and ceding them to the U.S.S.R., Poland would have no chance of existing at all.

I was believing that sooner or later both the Communist movement and the U.S.S.R. will mature and will make Poland free, and I believe that that was the time when Solidarity and other democratic forces started to work toward that goal.

Therefore, I was not hiding my sympathy for Solidarity and other democratic forces as many, by the way, members of the Communist Party were.

May I say that 1 million of the Communist Party members defected to Solidarity and to other democratic forces because they were believing that this is an historical chance of doing something for Poland.

Of course, I knew that probably those chances are not as bright as many people wanted to believe but there was no other way around. You had to do it.

And when I came to the conclusion that the last hope of mine was taken away from me by the military crackdown, I decided to defect, not only to defect but to continue the fight for the independence of the Polish people.

I am really not seeking any material benefits here. I was a privileged man in Poland. I had everything at my disposal, and this is not that.

But I believe that really the soul is much more important than the material well-being.

Senator **Melcher**. The description you have given of Polish agricultural failure is convincing, and it seems to echo what we have begun to understand is the dramatic and profound failure of Russian agriculture.

Do you view American agriculture as being one of the strongest bulwarks of the strength of America?

Ambassador **Rurarz**. As one, yes. I still believe, I would say, that the most important bulwark of America is the nuclear potential. You would not defend your country with the grains only.

But grains is the weapon also in defense and offensive as well. So that I believe the greatest, I would say, handicap of the Soviets at present is that they cannot feed their own people despite the fact that relatively ten times more people work in the Soviet agriculture than in the American agriculture.

The people are fed at least twice less than the Americans on the average. Besides, you have the surplus that they do not have and so on and so on.

So that this is the failure of the Soviet system, and this is, of course, a demonstration of the viability of your system. May I say that Lenin was once saying that the world will be unable to live without Soviet grains. Do you see how much he knew the future? Yes, it was his saying.

So you have a tremendous weapon in your hands by having the grains, the surplus of grains.

Senator **Melcher**. Do you believe that it is possible to work with the church to get food to the Polish people or is there some other avenue?

Ambassador **Rurarz**. I think that the only independent force organized in Poland and acting legally is the Catholic Church. Anything else is either illegal or the foreign, I would say, organization, not really Polish.

So that working through the church which has the knowledge how the people live I would say that individual knowledge, they know their families, they know who is in need and so on and so on.

I think that this is the most effective assistance to the Polish people. Otherwise, it can be a lot of waste, and besides that assistance may be not coming really to those who are really in need.

May I say, Senator, that I in the past remember that those forces who are fighting resistance in the post war period were mostly fed by your deliveries.

Senator **Melcher**. By our deliveries of food.

Ambassador **Rurarz**. Not only food but including the trucks, jeeps, other equipment. If you do not give that assistance directly to the people, you may be giving it to somebody else.

Senator **Melcher**. Is it essential at this time for the sake of the people of Poland and for the opportunity for Solidarity to thrive that food be given?

Ambassador **Rurarz**. As I said, through Solidarity you cannot work. Solidarity officially does not exist. It is underground. It is well organized within.

Senator **Melcher**. I understand that. I am not saying giving food to Solidarity, but giving food to the Polish people through the church is necessary so that the spirit of maintaining and the strength of Solidarity can continue.

Ambassador **Rurarz**. Yes. I think that if that assistance will be organized along those lines you say, then the people in Poland would know that they are getting the assistance from the Americans directly over the heads of the military junta.

I think it would be marvelous. This would be highly individualized assistance. As I say, the church knows very well there are many Polish families as you saw, maybe, Senator, yesterday on NBC. There was a young lady who was detained with her mother. Her husband is still detained, and the little boy of 7 months old was left I do not know with whom.

But the church certainly would know, and would be helping the people like that, and I do not believe that the official figure of detained is the real one. From the Solidarity people it is suggested that the figure is higher.

Besides new areas are being pursued, and at any minute, the situation can, in Poland, deteriorate, and tens of thousands of Poles may be detained or arrested or otherwise persecuted.

So that the Poles need that kind of direct help over the heads of the military junta which is unPolish.

Senator **Melcher**. Thank you very much.

The CHAIRMAN. Mr. Ambassador, thank you very much for your testimony.

Ambassador RURARZ. I thank you.

The CHAIRMAN. Our next witnesses represent an agriculture industry panel. Carl Schwensen, Executive Vice President, National Association of Wheat Growers and John Stevenson, Vice President of Legislative Affairs of the National Corn Growers Association.

Mr. Stevenson had to depart so his testimony will be inserted in the record.[1]

Mr. Schwensen, we welcome you, sir.

STATEMENT OF CARL SCHWENSEN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. SCHWENSEN. Thank you, Mr. Chairman. It is a pleasure to be here. I will be happy to summarize my testimony and to have it included in full in the record of your hearings this morning.[1]

We have looked at Eastern Europe in the past as a growing market for U.S. credit sales. Recently, we have noticed that because of the increasing indebtedness of this region that we are experiencing a sudden change.

In the case of Poland, our trade with Poland over the years has been largely in agricultural commodities and predominantly in corn and soybeans, soybean products as well.

Wheat trade in this area has been very small in comparison to other grains, in calendar 1981 on the order of about 2 percent of total trade with Poland.

As the Government witnesses indicated earlier this trade in agricultural commodities has been facilitated almost solely by USDA's Commodity Credit Corporation.

We note that within the range of political, economic, and military options available to our Government in responding to the continuation of martial rule in Poland that the matter of declaring that Poland is in default on these loans has been identified as one approach that could be pursued.

We feel that it is important that the integrity and credibility of USDA's Commodity Credit Corporation be maintained in all handling of our credit relationships.

In this regard, we would be concerned if we were to see the Commodity Credit Corporation turn into a financial weapon. It is a very vital program for farmers. It provides export credits. It also provides domestic price support operations.

And we feel that whatever happens with regard to the Polish debt, whether our Government decides to declare Poland to be in default or whether we continue to string out the debt, the obligations that will become the Commodity Credit Corporation's, will amount to losses that must be restored so that we can continue to have a viable mechanism to finance our domestic and export programs.

In this regard, I would take just a moment to comment on deficiencies that we see in our export credit programs. The program that is currently operating and represents perhaps $1 billion of Polish debt to CCC is our export guarantee program.

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[1] See p. 91 for the prepared statement of Mr. Stevenson and p. 89 for the prepared statement of Mr. Schwensen.

That is the only commercial program that we have that is now in place to facilitate the sale of commodities, wheat and other U.S. products worldwide.

We commend your committee and the Congress last year for its work in establishing the revolving fund for direct export credits, and we note that a majority of your committee has supported the funding of that program in this fiscal year.

We think that that is important if this program is going to get off the ground. Its authority expires in 1985, and it should be activated as quickly as possible.

Our foreign marketing organization, U.S. Wheat Associates, finds that our country is simply not competitive with other nations when it comes to credit sales. There is a big gap in relation to other active exporters in commercial sales at competitive interest rates.

A competitive rate would probably be about 10 to 12 percent currently compared to the offerings under our export guarantee program which approximate the prime rate of about 17 percent.

We see a need, therefore, to establish or to adapt current programs to be more competitive in the credit area. This is particularly true in view of the fact that we are currently facing the third successive year in negative farm income.

We are looking at the largest accumulation of wheat stocks since 1977-78. We are looking at increased indebtedness, at record rates of interest, and we need to use every facility we have, we feel, to try and pull ourselves out of the decline that we have in agriculture.

With that, Mr. Chairman, I would conclude and be pleased to respond to any questions you or Senator Melcher might have this morning.

The CHAIRMAN. I thank you.

What would be the impact on U.S. agricultural exports if Poland were to be declared in default? You alluded to that.

Mr. SCHWENSEN. I frankly do not know, Senator. In the case of wheat, it would not be great. One might be able to perceive now some negative impact on our credit program.

There might be some future unwillingness on the part of U.S. banks to participate in guarantee programs. Those are impacts that could be perceived. I do not know of any impact that could be predicted at this point.

The CHAIRMAN. Well, let us turn the corner. What, in your judgment, has been the assistance in increased sales of U.S. wheat exports from the CCC export credit financing? Has it helped, hurt?

Mr. SCHWENSEN. It is absolutely a big help. There are limitations on the program, though. The guarantee program is limited at $2.5 billion which, in our view, is about only 60 percent of what would be required to have a strong commercial guarantee program for our credit sales.

So, we feel that far more could be done and far more should be done to market our commodities through these facilities, the guarantee program, and the revolving fund program that Congress has authorized.

The CHAIRMAN. Considering the financial crisis in Poland, do you think that the United States will or should continue to export grain to Poland?

Mr. SCHWENSEN. Well, that, Senator, has foreign policy implications, and I do not feel competent to reach conclusions on it, but I think we can see from the testimony earlier this morning that the likelihood that we would be paid for those commodities is very doubtful.

The CHAIRMAN. Could you provide us an example of other nations where CCC export credits would increase U.S. sales of wheat and corn and other commodities, that is, to countries other than Poland?

Mr. SCHWENSEN. I think virtually all the developing nations are feeling a cash squeeze. Petroleum prices are going down, but these countries are heavy importers of energy from OPEC nations. Therefore, the developing countries are going to be eager to apply for any type of credit they can get.

And I do not think that we should look at the Polish example as being indicative of the economic status of other developing nations. I think they are at the point in their development where credits will be repaid and credits can be very helpful to them in developing the food and livestock sectors of their economies.

The CHAIRMAN. Senator Melcher.

Senator MELCHER. Well, it seems to me we have thrust in front of us right now because of the question of default on Polish payments to the Commodity Credit Corporation tremendous opportunity, almost an historic opportunity, to demonstrate one of the strongest attributes of this country, and that is our agricultural production.

You can call it what you will. Food diplomacy has been the term that has been bounced around for years. But I think your testimony points out that without the opportunity of credit being available for the sales—I think other countries use their own direct credits for their agricultural sales—this country will be handicapped in many of its potential agricultural sales without a better avenue of credit being supplied for the export of American agricultural products.

Now, having said that, you zeroed in on first of all that it is recommended in the budget before us, recommended by the administration that $2½ billion for direct credit for CCC would be too small.

What about the revolving credit provisions that are provided under the 1981 Farm Act? How do you envision that should be funded? To what extent should it be funded?

Mr. SCHWENSEN. Well, it should be funded by as much as $1 to $2 billion if we are going to have an aggressive program. I do not know whether Congress is going to be able, because of budget constraints, to do that.

Maybe only half a billion would get it started. And that is worthwhile, I think, Senator, to get the program moving. We need to activate it, and every step in that direction is progress.

And, hopefully, we would find the opportunity in subsequent fiscal years to add to the capitalization of that program and generate further credits which could revolve in a dedicated account.

Senator **Melcher**. Yes; I should differentiate that the $2½ billion is a credit guarantee. The revolving fund would be a direct credit.

Mr. **Schwensen**. That is correct.

Senator **Melcher**. So, the combination you see of the guaranteed credit can be greatly enhanced by the revolving credit which is direct credit.

Mr. **Schwensen**. Yes, Senator, I do. Before the direct credit program was terminated under the Carter administration in the fiscal 1981 budget, there was considerable demand from overseas customers in developing nations for this direct credit from our Government.

The decision to replace the direct credits with the guarantee program was made not because of any savings to taxpayers or any preference on the part of the importing nations but rather to reduce the impact on our budget.

Senator **Melcher**. Well, would the revolving credit funded at $1 to $1½ billion actually leverage greater amounts of credit than the $1 to $1½ billion would represent?

Mr. **Schwensen**. I am not sure I understand your question, Senator. You are asking if a $1½ billion in direct credits would, in some way, generate additional credits?

Senator **Melcher**. Exactly.

Mr. **Schwensen**. Well, as the fund revolved, certainly it would. If you were capturing repayments to CCC loans such as those that we discussed earlier under previously disbursed direct loans and added to that repayments which would be coming back under our medium term direct export credit program, I think that we would be expanding, in future years, our ability to finance our exports.

Senator **Melcher**. So, by using $1½ billion, say, in the revolving fund in 5 or 6 years it might have generated sales that are in the multibillions.

Mr. **Schwensen**. These are commercial loans, Senator, as we all know, and they are going to be generating interest somewhere between probably the prime rate and the cost of money to our Government.

So, it is a moneymaking program. When it was operating, it was making money for the U.S. Treasury.

Senator **Melcher**. Well, turning to a different aspect of using American food, under title II of Food for Peace, wheat would be available immediately, would it not, and is available right now?

Mr. **Schwensen**. For donation?

Senator **Melcher**. Yes.

Mr. **Schwensen**. Yes, it would, Senator, under my understanding of it.

Senator **Melcher**. Thank you very much.

The **Chairman**. Thank you.

Mr. **Schwensen**. Thank you, Mr. Chairman.

The **Chairman**. Our final witness is a distinguished gentleman, Mr. Konstanty Hanff, who is chairman of Free Poland in New York.

STATEMENT OF KONSTANTY HANFF, CHAIRMAN OF FREE POLAND, NEW YORK, N.Y.

Mr. **Hanff**. Thank you.

If I may begin with some nasty remark to the Senator. Please do not feel offended, sir. There is some kind of customary misuse of terms. When you had your exchange with Secretary Ikle, you have used the word "Russia" instead of Soviet Union.

This may cause some kind of impression that Russia is an adversary of the United States, which is not true. The adversary of the United States is the Soviet Union.

And also you asked Secretary Ikle a question whether Poland should be also seen as an adversary, similar to the Soviet Union since it is in the same bloc.

Again, it is not Poland who ever was or will ever be an adversary of the United States. It is the regime which is puppet of the Soviet Union and not of Russia.

This is a distinguished difference so that the media are not obeying the rules of the use of proper terms. The misuse on these terms leads sometimes the average reader, the average listener to wrong conclusions.

They do not understand the political background of the actual situation.

Senator **Melcher**. I do not believe I misunderstand. What you are saying is that the people of Poland are not adversaries. It is the military junta that is the adversary.

Connected with the Soviet Union, it is the Soviet Union's government that is the adversary not the people themselves.

Mr. **Hanff**. Not only people but country and nation as such. Poland became an adversary of the United States only beginning in 1944 when it became a Soviet satellite country, never before and I do not believe ever in the future after this country will regain freedom.

Senator **Melcher**. I understand perfectly.

Mr. **Hanff**. If I may, I will try to keep within the 10-minute limit, but if it will be 12 please do not beat me up.

I am here to represent not only my organization Free Poland which is based in New York and which I am leading since 1975, but also as a spokesman for the Confederacy of Independent Poland, whose views and wishes are shared by the majority of Polish people.

The Confederacy of Independent Poland, known under its initials KPN, was officially formed on September 17, 1979, as an independent political party, which was and is the only political party acting overtly as the opposition to the ruling Communist Party.

It is important to note that the KPN is a confederacy which includes: Free Trade Unions, National Committee of Polish Socialists, Movement for Defense of Human Rights, National Union of Catholics, Christian Unity of Working People, Young Poland Movement, groups of populist movement, and others.

The board spectrum of political views of its members is channeled into political unity by common consent on priorities and thanks to the common denominator best expressed in our call for freedom and independence.

KPN demands free elections and free enterprise system, and thus the aims of KPN are excluding any chances of survival for the monoparty system and Communist rule.

The Communist press and television, both in Warsaw and Moscow, but also in Vienna and even in New York, disseminated recently dozens of long articles and TV shows aimed toward slandering political activists of Free Poland and of the KPN.

There were numerous articles which have portrayed our activities and in which I have been made responsibile for instigating the very formation of the KPN and blamed for instructing its leaders.

The KPN in turn is accused of infiltrating the leadership of Solidarity and blamed for its shift of policy in the antiregime and anti-Communist direction.

The KPN has grown from 11,000 to over 44,000 regular party members in spite of persecution just during its first year of overt existence and the number of KPN's sympathizers goes into millions.

The leaders of KPN are in jail and their future seems to be bleak at the present day, but the organization is alive and works in the underground and it is still growing.

When you, ladies and gentlemen, have heard the news about brutal police action against striking coal miners in Katowice region in December of 1981, the last bastion of active resistance when the martial law was imposed, you have not been informed by liberal media here, that the majority of these coal miners were openly wearing the KPN emblems. The regime reserves the most cruel and harsh treatment for the KPN leaders and KPN members in Poland because this is the existing political party, a power able to survive and defeat the Soviet slavemasters. The entire nation, together with underground forces formed by the now also illegal Solidarity, is strongly attached to the ideology and political program presented by the KPN.

Still a more important symptom of the times is the fact that this ideology is supported now even by the leftwing KOR people, and by so-called social-democrats, many of whom are now in the West. You may have noticed, that the KPN people were not permitted to leave Poland legally in the past 2 years.

Actually my presentation of arguments against any bailout of the bankrupt Communist regime, against any loans and credits to the oppressive Communist rules, against any repayment of their debts by the democratic Western governments, will be based upon many of my previous statements.

Let me just read some selected quotations from reports and memoranda delivered by me here, on Capitol Hill, on various occasions when speaking on behalf of the Organization Free Poland or on behalf of the Confederacy of Independent Poland:

In October of 1979, I have presented a statement about Leszek Moczulski, the leader of KPN, and I have extensively used his arguments as written in his work titled "Revolution Without Revolution."

I quote:

> Thus, the economic impact of a general strike shall be the response of the nation to the economic exploitation mastered by the Communist rulers. Such plan must lead to the downfall of the regime and enable the nation to restore the free enter-

prise system, free trade unions to represent the workers and freedom of association to provide the basis for a truly democratic state.

The idea of using the general strike as the best weapon against the regime was that of Leszek Moczulski and it was disseminated in Poland 1 year before the wave of strikes started.

And another sentence from my statement of October 1979:

> Disruption of production in Poland caused by a general strike with which the KPN is threatening the oppressive Communist regime will bring the rulers to the stage of full bankruptcy and inability to repay the borrowings from the West.

And in my closing remarks I have noted:

> The resistance movement in Poland, the KPN, perfectly knows of that situation. If the Western banks would run into panic as to what will happen if Communist rulers will go down the drain and ask who then will pay these loans off, they should talk to the representatives of KPN * * * (who) might be willing to assume the obligations of the present totalitarian regime and pay off these loans under certain conditions. But do not wait too long.

This was said in October of 1979. Obviously now it is really almost too late.

In a confidential memorandum presented here in Washington on February 25, 1981, we can read the following sentences:

> The "Revolution Without Revolution" is under way and it will not take too long when we shall see the end of Soviet domination over the Eastern Europe. We are leaving the doors for the United States open. However, it might be too late to step in when the change of the system will already be an accomplished fact.
>
> Your help now will secure the American interests in the future. However, if we will not receive the expected support, then the fundamental changes in Eastern Europe, and especially in Poland, will take place anyway, but someone else may benefit from these changes and gain larger influence there instead of the United States.
>
> And if this would be the case, we do not believe that Poland will repay the debts created by the Communist regime. Either the United States and the Western World will help now to form a new, democratic government in Poland, freely elected by the majority of voters and thus secure Poland's ability to repay its loans due to the West or the present turbulent situation will last for a very long time but with no money for the Western lenders in sight.

In the memorandum of March 1981 we have stated:

> There is no chance of establishing a new communist or even half communist government in Poland which would be able to inspire the people or to force them to work for the Western bankers and similar situation in other Eastern European countries will develop as well soon.

Please note that these are my words presented here a year ago:

> This makes the collapse of Western monetary system within the next 2 to 3 years inevitable. The collapse will occur as the result of Communist bloc's default in repayment of loans and credits extended by the West.

Another fact: Also on February 25, 1981, a representative of the KPN, Mr. Bielenski, was here and we have predicted already then that, and I quote:

> General Jaruzelski and Mr. Rakowski need now these 3 months of strike moratorium not for the purpose of improving the economical situation of Poland but aiming to consolidate their forces for an offensive against the real opposition.

This has been said 10 months before the martial law was imposed.

In September of last year, Organization Free Poland has disseminated on Capitol Hill a letter in which there was the following statement:

> Since few years I am trying to convince the West that the system of profiting from slavery in the Soviet bloc has come to its end. * * * However, efforts made by some bankers to rescue their profits from the Soviet slavery system are fruitless and doomed to fail because the slaves are now well organized and well informed about the bankers' cooperation with their oppressors.

On Solidarity Day, January 30, 1982, we have distributed a warning to the peoples of the world. Let me read just one sentence from this document:

> The financial aid to the rotten Communist system extended by the Western banks proved to be almost a suicidal operation. The West will lose some $90 billion in terms of money, and it is losing even the remnants of moral and political credibility among those nations mercilessly exploited by the Soviet empire.

And finally on February 10, 1982, the KPN has sent a message to the President of the United States in which, among some other requests, we also clearly read as follows:

> KPN urges all Western governments, under the leadership of the United States to declare communist ruled Poland in default and to demand immediate repayment of all loans.

These are the views of the people of Poland.

However, there are few other arguments. But the proponents of the bailout and the defenders of the sick policy of détente cordiale with criminals are using nothing but poor excuses.

There is a lot of talk about grain embargo. However, it is desirable but not most important factor. A credit embargo will do.

It is not true that if the U.S.A. will not sell grain, then the Soviet Union will buy it somewhere else. If Canada or Argentina would sell their grain on credit, then in 2 or 3 years from now these countries would go bankrupt as well, down the drain together with the U.S.S.R.

It was a crime to support the Communist regimes with money, food, and technology in the first place. Now, it would be still much greater crime to take American taxpayers' money and use it for financing the most oppressive, totalitarian regimes in the world.

There is not even one decent citizen in any country who would consent to payments of billions of dollars for feeding the KGB, the brutal police, the terrorists. Who is eager to prolong the agony of Soviet empire anyway?

There is another argument that we have to consider our allies who, it is said, do not support sanctions against Communist regimes. But your ally is not Mr. Schmidt but the German people. Your friend is not General Jaruzelski but the Polish people. And these people ask you to stop financing Communist regimes.

And the last argument is that the default of Poland will cause a chain reaction, which is true, and will lead to financial disaster in the West. But, even if you, ladies and gentlemen, would permit the Government to use taxpayers' money for the purpose of bailout the banks from oncoming disaster, it will not help and it will not work. Why? Because the Soviet empire without further loans of more billions of dollars will not survive couple of years anyway. How will then the banks be able to exploit the enslaved part of the world without the Communist system? The banks will go bankrupt anyway. Whether you will permit repayment of debts or not. And this is nothing but the result of the totally bankrupt policy of Kissinger and others; a policy called interdependence, détente, or straight: convergence.

We are flexible. We are the ones who create the history today. We are building a situation to which the banks and the governments of the West will be forced to adjust.

We know how to organize a structure of manageable stability. It is the modus operandi of the West which is totally outdated, old fashioned and based upon sort of socialist ideas and which leads you to a situation of unmanageable instability. It is too late to stabilize the Communist system. A new system is needed.

Now, it might be the last chance to save the Western World from a total bankruptcy, and this must be done by declaring the Communist regime's default. The Communist regime must go, and then you will be able to renew your friendship with 36 million Poles.

Only new, democratic and freely elected government of Republic of Poland will be in a position to rebuild the economy in a framework of free enterprise system.

Poland is a rich country and Polish nation is well educated, highly dynamic, and now very young. The median age in the range of 30 years only. Restoration of freedom and independence in Poland is the only way to secure the repayment of loans and to save the Western monetary system from a disaster.

And the sooner you will stop financing the Communist world, the better for the American people and for the people of the entire world. There are means and ways of preserving peace. Let us make the first stop. Do not permit the government to pay for any debts.

Thank you.

The CHAIRMAN. Dr. Hanff, you certainly have agreement from this Senator. I was thinking as I followed your statement, the printed text, that so often we are not given a true and understandable picture. Certainly the American people are not.

The situation in Poland could be translated to El Salvador wherever communism is on the rise with its totalitarian tyranny.

Now, your statement greatly encourages me. I have the greatest admiration for the people of any nation who are fighting for freedom, and of course, Poland and the people of Poland are in the forefront of that now.

One of my fellow North Carolinians whose name is certainly familiar to you, Dr. Billy Graham—Billy and I grew up about 21 miles apart, and he has made the point so often that you have made this morning that the Government of Poland or the Government of the Soviet Union really do not represent the people.

There is a burning yearning for freedom, and now for years and years I have sat in bewilderment watching our foreign policymakers here in Washington go along with tolerance on a highly selective basis, thinking that we can compromise with tyrants here and maybe slap one down over here.

But it does not work that way. You are either for freedom or you are not, and you have to be consistent, and I think that is the thread running through the fabric of what you said this morning.

Now, the question I think has been given that Solidarity merely is seeking reforms in the system, in any case that is pretty much the way the media in the West have portrayed Solidarity's objectives.

But you have pushed that aside and you have said that is not so. Solidarity wants freedom for the people.

Mr. **Hanff**. That is right, Senator. If I may, a few words on this matter. The media in the West which in the last 2 years actually since the uprising or actually the formation of Solidarity was known to the West has always stressed that the kind of Marxist groups is the main core of the Solidarity and main spokesman for the wishes and desires and goals of the Polish people.

There was a time at the beginning starting from 1976 when "core" worked very efficiently in disseminating basic tools about human rights in Poland, and thus convincing a need to fight for human rights or more than that, rights of the workers since the Marxist religion was the dominant in "core."

And many of the "core" people or actually this is a committee which has 10 members so it is not representative of the Polish nation, never was, never tried to create a political bloc or to form a party or whatever.

But they were very much outspoken and the media in the West were giving to them all the credits. So actually what you were able to read in New York Times, the Washington Post, television was the "core" technique and a couple others, maybe Marxists, and they were represented as the leaders of the movement or whatever it was. That is not true.

They were playing a pretty significant role, no doubt. Nobody is taking away from them whatever credits they had, but the nation in general in Poland beginning from 1944 when the Communist government was created never was attached to Communist religion and never was strongly believing in socialism and never wanted to be a Socialist state.

Of course, there were 3 millions of party members, but this also does not reflect the feelings of the nation. Why? Because I would assume that out of those 3 million at least 70 percent were simple opportunists who were looking for a better position to get a better job.

And what previously Ambassador Rurarz said is the best proof of it. During such a change in public mood, 1 million which is one-third of party members runs over to Solidarity movement.

So what actually was the morale of the party itself? None. And even on the top of the Communist Party, nobody is really believing in achieving any religious Communist goals.

But they just are good players. They love the positions they are holding, and they continue because they do not have actually a way to escape. Ambassador Rurarz found a way how to escape. He now is on our side. Good. I accept that.

But it does not mean that the majority of the people in the government which is, let us say, a couple thousand people, would do the same in our situation. I would prefer they would do so, but it has not happened yet.

Nevertheless, the Solidarity was expressing absolutely the wishes of the people, and therefore, they were unable to keep in line with what was presented by people of the left wing movement, the "core," as a basic policy. It was impossible.

Even now the people from the left wing are accepting many points from the platform of the KPN. It was freedom and independence is such a decree, power, slogan in the minds of every Pole that you cannot press for any reformist ideas now.

You cannot say that you can improve this system since this system, everyone knows, does not work at all.

The CHAIRMAN. Well, I am a Baptist, and I was raised to believe that revelation meant what it says that in the end good will prevail over evil, and for one, I salute the gallant people in Solidarity and I hope that it will spill over into the other countries that are oppressed.

Well, I thank you so much for being here. Your testimony is greatly inspiring to me and I wish you well.

Mr. HANFF. I thank you very much.

The CHAIRMAN. At the outset of these hearings, the Chair set as the committee's goal that of determining the exposure that the Commodity Credit Corporation faces from financing trade with Poland and the assessment of the potential for Poland to continue as a paying market for U.S. exports.

Now, we have determined from testimony here and other information previously that the Commodity Credit Corporation does, indeed, have specific exposure on Polish loans, and we shall watch that very closely. That I can assure you as chairman of this committee and as a Member of the U.S. Senate.

We have established, I believe, that Poland is now paying its obligations—I am tempted to put quotes around that—but up to $20 billion in new credits will have to be extended to the Government of Poland from the West within the next few years just to keep these loans current.

Now, it seems to me that it is not at all likely that such massive credits will be extended, so eventual default by the Polish Government seems inevitable.

That potential default suggests that we cannot expect repayment of those loans to continue for long, and bear in mind I am putting the best possible face on the approach and scenario.

That conclusion poses major policy questions for our foreign policy establishment and for U.S. exporters as well, and I trust that our ferreting out this information will be useful to the foreign policy process, and I believe that we will, therefore, have accomplished our goals.

I ask that certain exhibits presented by witnesses be inserted in the record.

If there be no further business to come before this committee, we stand adjourned.

[Whereupon, at 12:54 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. ROGER W. JEPSEN, A U.S. SENATOR FROM IOWA

Mr. Chairman, you are to be commended for holding these very important hearings.

It was with mixed feelings that I voted in early February to provide an additional $5 billion in permanent borrowing authority for the Commodity Credit Corporation.

In supporting the legislation to boost borrowing to $25 billion, I did so because of the potential damaging effects on our farmers. In absence of such legislation, price support loan and payment operations would have had to be suspended—and in times of depressed market conditions, this could not be permitted.

But at the same time, I had grave concerns. I still do.

Our farmers—and other taxpayers—are having a difficult time understanding where the Administration is coming from—and where it is heading.

On the one hand, it has refused to make additional credits available to farmers suffering economic bad times not of their making. On the other, it has elected to ignore the bad debts of the Soviet bloc, in particular Poland.

No matter how one slices it, it still boils down to the fact that our farmers—and other taxpayers—are being asked, and will continue to be asked, to pay for grain they thought they had sold to someone else. Instead of reaping the profits, they are getting stuck with the debts.

That just doesn't make sense.

The Administration has insisted on building up the national defense. I am in accord with this policy, for it is long overdue. But at the same time, it has acted in such a manner as to relieve the Soviet bloc of what has been called by some its greatest shortage—capital—which enables it to continue its own military buildup.

That too just doesn't make sense.

Instead of resorting to embargoes—or the continued threat of embargoes, which is almost as bad—the Administration should actively consider an alternative economic lever . . . one I feel could drive home the message that we abhor repression in Poland and elsewhere.

It is time we match our tough words with tough actions.

The Washington Post of yesterday, March 11, provides a very vivid clue to what direction this policy direction could take. Let me quote from the first two paragraphs:

"In a move that may mean the Soviet Union is running low on cash, the Moscow government has begun financing its purchases of grain in this country with short-term loans from U.S. commercial banks, trade sources reported yesterday. The reliance on credit in its grain dealings is an unusual development, since the Soviet Union usually pays cash."

Mr. Chairman, it also is my understanding that some grain companies have refused to make credit available to the Soviet Union . . . that they are insisting on cash in hand.

The Administration should consider taking a tougher stand on the some $70 billion in hard currency the Soviet Union and its Eastern Europe allies owe to the United States, western governments, and banks. Of this, $26 billion is owed to western banks and western governments—and the United States—by Poland alone.

The Administration should pointedly signal, for example, that it is rethinking its policy on the $1.8 billion in Commodity Credit Corp. loans and guarantees to Poland. Last year, the U.S. rescheduled, that is postponed more than a half billion in export credit loans alone to Poland.

What it did was to place a four-year moratorium on repayment of the principal. It told Poland it doesn't have to start repaying until January 1, 1986, and doesn't have to complete repayment until July 1, 1989.

Yet the Administration is having a difficult time determining whether it should revise its regulations so that farm loans may be rolled over at the original rate of interest agreed to at the time the loan was obligated. It would make sense to do so because of the unusually adverse economic conditions existing today in our farm sector.

This year, some $300 million in guaranteed loans to Poland come due; in the next two fiscal years, the total guaranteed loans by the Commodity Credit Corp. amount to $613 million.

What this means is that if Poland doesn't pay up—and to date, it hasn't shown any real signs it plans to do so—the taxpayers will have to foot the bill. And believe it or not—and at times I feel some doubt it—farmers are taxpayers. Farmers will be hit worst. They sold the grain in good faith. Now, and in the future, they will be asked to pick up the tab for their own grain.

It just doesn't make sense.

What is of concern is that the U.S. government took the initiative to take Poland and the banks off the hook. Instead of having the banks declare Poland in default—and regulations would seem to require this—the government on its own advised the banks to let it know if Poland hasn't paid up. If it hasn't, the banks were told, we will pay you. That "we", for those who may not know, are us, the taxpayer.

We are not helping our farmers by guaranteeing loans to move grain and then turning right around and requiring them to pick up the tab for someone's failure to make good on the loan.

That is not promoting exports, it is promoting foolishness.

New York investment banker Felix Rohatyn put it in perspective when he lined up behind those recommending cutting off bank loans and credits and thereby forcing the Soviet Union to draw down on their own capital. Let me quote from a recent New York Times article:

"It is easy for the Soviet Union to get around a grain embargo, for Argentina and other countries will be glad to accommodate. Trade and economic sanctions are hard to impose since many European countries choose not to follow. The withholding of capital is a different issue however . . . the West has been relieving the Soviet Union of what may be its greatest shortage—capital—at the cost of making bad loans while pretending to oppose Communism. That is bad business, bad policy, bad morality."

Of course, someone would be hurt if the Administration says it won't reschedule Polish and other Soviet bloc debt—the big international bankers. To date, they have been less interested in Polish repression than in getting their loans rolled over, as someone so aptly put it. Washington Post columnist Hobart Rowen suggests that "the time has come to start playing hard ball, to stop worring about the big bankers, and to develop a policy on this issue that would provide some incentive for the Polish army and the Russians to back off. The tool is there in the Polish debt."

In a recent editorial, the New York Times commented that Western investors in Eastern Europe "must either keep up pretenses and keep lending the Soviet bloc a great deal more, at the eventual expense of Western taxpayers. Or they must call a halt, hurting Western commerce but severely damaging the East. The only obvious conclusion to be drawn is that such economic war is too important to be left to bankers."

The editorial noted that the West's huge investments in Eastern Europe "have indeed been 'interfering' in the Soviet bloc, but in helpful ways that the Kremlin desperately wants continued," It says Poland's bankruptcy will make it more dependent on the Soviets "but in ways that the Kremlin anxiously wants to avoid."

The issue, the editorial continued, is whether the West wants to continue pouring billions more after billions of bad loans. It said the President no longer can pretend that the East's debt is collectible . . . that "rolling over the bad debt" basically means taxing the democracies to permit the Communist nations to relieve their economic distress without seriously disturbing their military efforts.

To echo the editorial, it is time for the capitalist democracies to fight with capital.

I hope this hearing today answers several questions relating to the decision to force the taxpayers to pick up the bill for the Polish debt.

Was the decision to repay the Polish loans without a formal declaration of default a violation of federal regulations?

Why was there a failure to follow usual procedures and publish notice of such a change in the Federal Register . . . thus denying the public an opportunity to comment?

And in the absence of such publication, should there have been some notification that the action constituted an emergency that overrode adhering to that procedure?

Mr. Chairman, I think this committee—and the American people—should have answers to those questions. Until then, they will be unable to understand a policy that permits backdoor repayment of debts to enable a government to continue its repressive actions. And our farmers will continue to puzzle over why they have to pay for grain they thought someone else had purchased.

STATEMENT OF HON. FRED C. IKLE, UNDER SECRETARY OF DEFENSE FOR POLICY, U.S. DEPARTMENT OF DEFENSE

Mr. Chairman, members of the committee, thank you for inviting me to appear before your Committee. I understand the focus of this hearing is the question of loans to Poland, backed by the Commodity Credit Corporation, and related aspects of agricultural loans to the Soviet Bloc. You have asked me to address the national security concerns that bear on this issue. I will, of course, defer to the witnesses from Treasury and the Department of Agriculture on the details of the CCC credits.

The CCC-backed credits to Poland are part of a much larger array of credits from the West to the Soviet economic system that are government-backed. There are German credits that the German Government insures, there are other European credits backed by other governments, there are credits whose interest rates are kept artificially below market rates, and so forth. In brief, the taxpayers of the Western alliance are subsidizing in various overt and covert ways transfers of Western resources to the Soviet Bloc.

Over the past decade or so, we have been all too cavalier, Mr. Chairman, about these blood transfusions to our adversary. Congressional committees examine with great scrutiny our financial assistance to our friends—to our very best allies who may be in dire need of help.

Whether it is Turkey, El Salvador, Pakistan, or Portugal, we in the Administration have a hard time to convince your colleagues to approve an adequate level of assistance. And we understand, of course, the reasons for budgetary stringency. But this hearing, Mr. Chairman, is one of the first ones scrutinizing the assistance we have been providing to our adversaries. This is long overdue.

What is the national security concern regarding a net resource flow in favor of the Soviet Bloc? Why is this issue so important?

Secretary of Defense Caspar Weinberger has submitted to Congress the Defense Department's Annual Report, which—in accordance with statutory requirement—not only presents the defense budget, but also the Administration's defense policy. I shall distill a few points to establish for you the connection between our national security goals and the issue of Western credits to the Soviet economic sphere.

First, even though the Soviet Gross National Product is only about 60 percent as large as that of the United States, the Soviet investment in arms and other military assets is much larger—exceeding ours by 80 to 90 percent during the last five years. This excess military investment keeps tilting the military balance in favor of the Soviet Union. It is this trend, primarily, that forces us to increase our defense budget.

Second, it was precisely during the period called "detente"—not during the cold war—that the Soviets embarked on and persisted in their massive military buildup. And this was also the period when East-West trade expanded and when the West gave increasingly accumulating credits to the Soviet economic system. By assisting the economies of the Soviet empire with Western credits we made it easier for the Soviet Union to divert resources to its military buildup.

Third, during this past period it was argued by the proponents of easy and expanding credits for the East that there would be political and security benefits from this generosity. The expanding trade and credit would help thaw the vestiges of the so-called "cold war," it was alleged, and thus induce military restraint. In fact, the Soviet military buildup accelerated, the Soviet military expansion spread into South Yemen, Indochina, Afghanistan, and many other places, and Soviet-inspired repression reasserted itself in Poland.

It was also argued that credits and technology transfers to the Soviet empire would be a "carrot" that we could use to exert some beneficial influence on Soviet behavior. This theory, too, is now torn to shreds by stubborn, contradictory facts. Paradoxically, the "carrot" theory is being damaged precisely by those people in the West who want to extend more credit and expand East-West trade further. They argue the Western nations would suffer too much should the spigot be turned off. These arguments greatly overstate the costs to the West of discontinuing the subsidies to Communist governments. The pain in the West would be quite tolerable. With some poetic justice, it would be confined mainly to those financial institutions and traders who argued that we should extend a "carrot" to the East to induce good behavior, but who are now opposed to withdrawing this "carrot" when the behavior repeatedly is abominable.

Those Ideologues, who remain locked into the simple illusions of detente, warn us that if the Western economic support for the Communist governments were discontinued, the Soviet leadership would go even further in strengthening its military and simply "starve" its own people. This view is uniformed of the current strains and stresses in the Soviet economy. Without constant infusions of advanced technology and essential consumer products, as well as capital from the West, the Soviet industrial base would experience a cumulative obsolescence which would also constrain the military sector, And the Soviet economic system cannot be reformed without liberalizating society as a whole. Thus, by furnishing economic aid to the Soviet Union, we are unwittingly postponing this very liberalization that we seek to foster.

According to the ideology of detente, offering technology and easy credit to the East would link the Eastern bloc to the West—putting a leash on Soviet behavior, so to speak. Now we discover that this leash is being pulled by the other side. The dogs on the leash are in the West, the Master is in the East, The Soviet government, by controlling all its purchasing agents, its banks and front organizations, is now able to manipulate powerful business institutions and influential individuals in the West. The purpose of this manipulation is to maintain a generous flow of resources from the West to the East. The Alliance's threat to stop the flow was supposed to constrain Soviet policy. Now, this theory has been turned upside down by those who made it their business to profit from the business of subsidizing the Soviet bloc. They argue that stopping the subsidies would threaten the West as a whole, not merely those who have a special interest in continuing the subsidies regardless of Soviet bad behavior.

Seen from the higher vantage point of the common defense of our Alliance and the taxpayers' burdens, it makes little difference whether or not Western banks and governments receive the interest payments on the Polish loans. What matters is whether the Soviet economic system will receive additional credits in the years to come.

The overriding objective for East-West economic policy is to imrpove the security of the Alliance, to preseve peace, to enhance the prospects for genuine arms control. To this end, we must curb the net flow of resources into the Soviet bloc, to let to inherent weakeness of the Communist economic system take its course and thus constrain the Soviet military buildup.

Now, as to the tactics in pursuit of this policy, many details must be carefully considered. Forging a common front with out allies is much to be desired. And we must take a long-term view. We are, after all, confronting a chronic condition—the chronic failure of the Communist system.

Many technical questions have to be sorted out: What are the possibilities of default? What are the repercussions if default occurs? How can we manage these repercussions to our advantage? What are the implications of rescheduling loan?

In the past, we noticed, the rolling over of bad loans has often been accompanied by the "rolling over" of bad illusions. Several years ago, the assumption seems to have been widespread among bankers that the Soviets would not allow any COMECON members to default, because of their concern for their economic and political image—the so-called "umbrella theory". Today, this illusion has been "rolled over" into a new one: that is is now the West, not Moscow, that must prevent default to protect the Western banking system. So it is now argued by these "roll-over" bankers that if they formally recognized what is patiently the case—that some East European governments can no longer service their outstanding loans, much less new ones—the whole West European banking structure would come crashing down like a house of cards.

To mention an area of special interest to this Committee, the scale of wheat and other agriculltural commodities ought to be conducted, I believe, on a cash basis. Such a policy means the Soviets have that much less hard currency available to buy technology from the West to support their military buildup. Giving the Soviets loans to buy grain allows them to meet the requirements of their burgeoning military buildup. Requiring them to pay hard cash will work to limit their ability to maintain the military expansion program they have underway.

While the United States government is not presently lending money to the Soveit Union for the purchase of grain and foodstuffs, I was dismayed to learn that private banks are now doing so. I do not see how such loans can be the national interest. Moreover, from a purely financial point of view, given the shakiness of the Soviet economy, the massive problems in the Warsaw Pact, and the fact that there are reports that the Soviets are requesting delays in repayment of existing loans, I am not sure it is good business practice to lend to the Soviets. I wonder how the shareholders of these banks feel about the risks to which the bank managers are exposing them.

Mr. Chairman, there is considerable concern and anguish in Congress about the need for a larger defense budget. And the same burden is felt by many of our allies. The long-term prospects for reducing this burden without increasing the risks of war are bleak, however, unless we can induce the Soviet Union to throttle their military buildup. We tried to set an example by unilateral restraint. That did not work. We tried to talk our adversaries into agreed military cut-backs, through arms control. That did not work.

The time for illusory policies is gone. We now must let the hard facts of economic forces take their course. Given a consistent policy on East-West relations, I believe, in the long run, we can be optimistic. We can move into a new era when the military competition will be halted and when the people of the Soviet Union can at last devote their resources to improve their standard of living.

STATEMENT OF THOMAS A. HAMMER, DEPUTY UNDER SECRETARY OF AGRICULTURE, U.S. DEPARTMENT OF AGRICULTURE

The Commodity Credit Corporation (CCC) was created to stabilize, support and protect farm income and prices; to help maintain balanced and adequate supplies of agricultural commodities, and their products; and to help in their orderly distribution. It may make available materials and facilities required in connection with the production and marketing of agricultural commodities and may be used to temporarily finance numerous special activities.

The basic functions of the Corporation include price support and related programs; promotion of commodity exports; procurement of agricultural commodities; and administration of acreage reduction, and the grain reserve programs.

The Corporation may promote the export of agricultural commodities and products through sales for dollars or foreign currency, payments, extension of credit, assumption of certain risks and other operations. Such commodities and products may be those held in private trade channels as well as those acquired by the Corporation. These programs are carried out under the authority contained in the Corporation's charter, and in accordance with specific statutes where applicable. Export sales on long-term credit terms are financed under Public Law 480, as amended, although such sales may also be financed under CCC's charter authority.

Over the years, several different types of export credit financing programs have been used. Some of the programs under which new financing is no longer being provided are GSM-101, which provides protection to U.S. exporters or financial institutions against non-commercial risks; GSM-5, which provides direct export financing for periods of up to three years; GSM-201, direct financing of breeding animals for over three but not more than 10 years; and GSM-301, direct intermediate term financing for the development of foreign market facilities. We are currently operating GSM-102, the all-risk export credit guarantee program, and the P.L. 480 program.

The export credit guarantee program is operated under CCC's charter authority. It protects the U.S. exporters, or their assignees (U.S. financial institutions), from non-payment by foreign banks on export credit sales due to commercial as well as non-commercial risks. Operation of this program is based on criteria which will assure that it is used only where it is determined that it will develop new market opportunities and maintain and expand existing world markets for U.S. agricultural commodities. For fiscal year 1982, we are operating the program at a level of $2.5 billion. The same program level has been requested for fiscal year 1983.

Mr. Chairman, USDA has submitted answers to your questions regarding CCC's credit activities in the Eastern bloc. Also, I would like to submit for the record a copy of our statement outlining the legal authority for CCC's offer of January 28, 1982, to holders of CCC guarantees covering credits to Poland. We are prepared to answer any follow-up questions that you or members of this committee may have on this subject.

DEPARTMENT OF AGRICULTURE,
Washington, D.C., March 8, 1982.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition and Forestry,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed are the answers to the questions you posed in your letter of March 2 regarding the export programs of the Commodity Credit Corporation (CCC). As requested, the answers to a group of related questions prepared for Senator Cochran are also enclosed.

For some of the questions, the answers are related to a specific date. The questions cannot be answered with any finality because the status of outstanding loans and loan guarantees changes almost daily.

We will be glad to elaborate on our responses, should the Committee feel that further information would be helpful.

Sincerely,

RICHARD E. LYNG, *Deputy Secretary.*

Enclosure.

Poland—Reconciliation of guarantee programs, GSM 101 and 102

	Millions
Preliminary Dec. 31, 1981, balance	$1,034.1
Less:	
Interest included (fiscal year):	
1982	37.4
1983	25.3
1984	8.1
Subtotal	70.8
	963.3
Payments (fiscal year):	
1981	61.0
1982	97.0
Subtotal	158.0
Principal balance, Dec. 31, 1981, preliminary	805.3
Plus: Deliveries recorded from Dec. 31, 1981, preliminary through January 1982	35.0
Balance as submitted	840.3

Question 1. The amount of GSM credit or guarantees covering interest and principal for Poland and other Eastern bloc nations.

Answer.

[Dollars in thousands]

Country	Export credit as of Dec. 31, 1981		Export guarantees as of Dec. 31, 1981[1]	
	Principal	Interest	Principal	Interest
Hungary	$2,553	$287		
Poland	540,171	217,857	$840,355	$75,117
Romania	41,524	5,388	48,981	7,542
Yugoslavia	2,378	245	18,885	1,700

[1] Represents the Dec. 31, 1981, balance plus January 1982 deliveries, but not reduced for January payments.

Question 2. The percent of credit and guarantees extended to Poland and other Eastern bloc nations, by country, are of each program authority of GSM 101, 102 and 5. What percent they are of the total GSM authority, and total CCC authority?

Answer.

[Dollars in thousands]

	Export credit program			Export guarantee program		
	Principal	Percent of program [1]	Percent of CCC borrowing authority [2]	Principal	Percent of program [1]	Percent of CCC borrowing authority [2]
Hungary	$2,553	0.28	0.01			
Poland	540,171	59.20	2.70	$840,355	38.24	4.20
Romania	41,524	4.55	.21	48,981	2.23	.24
Yugoslavia	2,378	.26	.01	18,885	.86	.09
Totals	912,416	100.00		2,197,526	100.00	

[1] Based on outstanding balance as of Dec. 31, 1981.

[2] CCC borrowing authority is $20 billion.

Question 3. Who purchases the food for the Polish Government?

Answer. Different entities within the Polish Government have the purchasing responsibilities depending on the type and use of the commodity. For instance, dairy products have been purchased by Hortex-Polcoop, feed grains by Rolimpex, tobacco by Agros, lard and tobacco by Animex and cotton by Textilimpex.

Question 4. What were the rates of interest charged to Poland and Eastern bloc nations for direct and guaranteed credits?

Answer. The interest rates have always been set at commercial levels. In the case of direct credits, the interest was always above CCC's cost of borrowing from the U.S. Treasury. Under the credit guarantees, the interest rate is negotiated between the U.S. financial institutions and the foreign country. These rates are based on the cost of money to private banks and are readusted throughout the credit period.

Question 5. Please provide a history of direct credits and guarantees to Eastern bloc nations since their inception, and what was the impetus behind their origin.

Answer.

[In millions]

Country	Credit guarantees	Direct credit	Total
Poland	1,097.6	1,671.1	2,768.7
Romania	50.0	313.3	363.3
Hungary	0	21.6	21.6
Yugoslavia	28.4	244.7	273.1
U.S.S.R.	0	549.7	549.7
Czechoslovakia		8.9	8.9
Total	1,176.0	2,809.3	3,985.3

These credit guarantees or direct credits were extended for the purpose of increasing U.S. agricultural exports. No direct credits or credit guarantees have been extended to Czechoslovakia or the U.S.S.R. in recent years due to restrictions in the Trade Act of 1974. With respect to the credit guarantees, CCC covered 100 percent of the above amount for Poland plus six percent per annum interest and 98 percent of the above amount plus eight percent per annum interest for the other countries. The above amounts represent the actual value exported.

Question 6. Please provide the current and proposed arrangements covering the rescheduling of Poland's payments to CCC and private banks.

Answer. On August 27, 1981, the Governments of the United States and Poland executed an agreement to consolidate and reschedule certain Polish debts which were owed to guaranteed by or insured by the United States or its Agencies and which were due and unpaid as of May 1, 1981, or became due during the period from May 1, 1981, through December 31, 1981. This included amounts due under the Commodity Credit Corporation's (CCC) Export Credit Sales Program, the Non-Commercial Risk Assurance Program and the Export Credit Guarantee Program. The agreement provided that Poland would pay, on the due dates under the original contracts, 10 percent of the amount due. The remaining 90 percent is to be repaid in eight equal and consecutive semiannual installments of principal plus interest commencing on January 1, 1986, with the final installment payable on July 1, 1989. Interest on the outstanding balance is payable semiannually on January 1 and July 1 of each year commencing January 1, 1982. There is no agreement to reschedule any Polish debt owed to or guaranteed by CCC which became due after December 31, 1981.

Question 7. Detail the legal authority under which the Department chose not to declare Poland in default.

Answer. Please refer to the attached memorandum which analyzes in detail the actions taken by the Commodity Credit Corporation regarding CCC guaranteed credits to Poland.

LEGAL AUTHORITY FOR CCC'S OFFER OF JANUARY 28, 1982, TO HOLDERS OF CCC GUARANTEES COVERING CREDITS TO POLAND

On January 28, 1982 the Commodity Credit Corporation (CCC) made an "Offer to All Holders of GSM-101 Assurance Agreements and GSM-102 Payment Guarantees Covering Credits to Poland." Essentially that offer provides for the repurchase or settlement of CCC obligations arising under the GSM-101 Noncommercial Risk Assurance Program and the GSM-102 Export Credit Guarantee Program in connection with export credit sales to Poland.

As detailed below, the action taken by CCC is clearly within its legal authority and is consistent with the laws and regulations governing CCC. Because an understanding of the CCC export guarantee programs is a prerequisite to understanding the action taken by CCC on January 28, this paper first outlines those programs, then explains the January 28 offer, and finally sets forth the legal basis for that action.

THE GSM-101 AND GSM-102 PROGRAMS

General program structure.—The GSM-101 and GSM-102 programs seeks to promote exports of U.S. agricultural commodities and their products by shifing some of the risks traditionally associated with export transactions to CCC. Both programs are essentially identical in structure and operation; the major difference between them is that the GSM-101 program is limited to protecting against only non-commerical risk while the GSM-102 program covers all risks.

Under both programs, CCC promises to reimburse exporters, or the financing institutions that are the exporters' assignees, for a portion of the exporter's account receivable in the event of nonpayment by the importer's bank that issued the irrevocable letter of credit pertaining to the export sale. In return the holder of the guarantee must assign to CCC all rights in the payment that was not received. The total amount that CCC will guarantee and the portion of the account receivable for which CCC will reimburse the holder is determined by CCC in advance for each country. In the case of Poland, all of the credits covered by the CCC guarantees were issued by the state-owned central bank, Bank Handlowy w Warsawie. CCC guaranteed 100 percent of the prinicpal amount and six percent per annum interest on these credits.

Mechanism for payment under CCC's guarantee.—In order for the holder of the guarantee to collect from CCC on CCC's promise to reimburse the holder, the holder must first notify CCC that a payment has been missed and then file a claim together with supporting documentation. Under GSM-102, pursuant to which CCC issued approximately 60 percent of its guarantees for credits to Poland, the requirement of notice is set forth as follows:

§ 1493.8 Notice of default: (a) If the foreign bank issuing the letter of credit fails to make a remittance pursuant to the terms of the foreign bank letter of credit or related obligations, the exporter or the exporter's assignee shall notify CCC by phone or wire if payment is not received within 10 days of due date, or any extension thereof . . . .

Section 1487.8(a) of the GSM-101 regulations contains a similar notice requirement. The language of that section is as follows:

§ 1487.8 Notice of a default: (a) If the foreign bank issuing the letter of credit fails to make a remittance pursuant to the terms of the letter of credit or a related obligation arising under the letter of credit and such default appears to be attributable to the occurrence of a noncommercial risk, the exporter or the assignee shall promptly furnish a written notice of default to the Treasurer, CCC . . . .

Under both regulations, "default" is defined as occurring when "the foreign bank issuing the letter of credit fails to make a remittance pursuant to the terms of the . . . letter of credit or . . . related obligation".

The purpose of requiring the holder of the guarantee to notify CCC that the foreign bank has failed to make a remittance is to alert CCC to its imminent liability for that payment and to allow it to take such actions as it considers appropriate to protect its interests. For CCC's purposes, then, this notice could have been titled a "notice of nonpayment" or "notice of overdue payment" or other similar language conveying the same idea. It is important to note that CCC's definition of default for purposes of notification under the regulations is fundamentally different from the concept of default in banking circles. A formal declaration of default in that context commonly involves triggering the penalty provisions of agreements with the debtor, including declaring the entire debt to be due and payable and increasing the rate of interest charged on the outstanding balance due. A formal declaration may also trigger efforts to seize the debtor's assets in an attempt to satisfy the debt.

CCC does not require such a declaration of default by the holder in order to trigger CCC's liability. CCC simply requires prompt notice that a payment has been missed.

Once the holder has notified CCC of the foreign bank's failure to make a payment, the holder has 30 days in which to file a claim with CCC for payment. A claim consists of a certification that the scheduled payment has not been received together with copies of the foreign bank letter of credit or related obligation, the ocean carrier or intermodal bills of lading, and invoices showing the value of the commodities exported. In addition, under GSM-101 the holder must furnish a copy of the export credit sales contract, and under GSM-102 the holder must submit the instrument transferring the holder's rights in the payment to CCC. CCC's obligation to pay the holder is not effective until a claim is filed. A notice and claim may be filed simultaneously. The purpose of the claim requirement is to establish a record to allow CCC to make a final determination of its liability and to furnish CCC the supporting evidence it needs to pursue CCC's rights against the foreign bank.

As a condition of paying on the holder's claim, CCC requires the holder to transfer to CCC all of the holder's interest in the payment missed by the foreign bank, including the holder's interest in the portion of that payment not guaranteed by CCC. The holder and CCC agree to divide any recoveries that have been or will be made on the missed payments by either of them between CCC and the holder based on their shares in that payment. In that manner CCC and the holder would be made whole at the same rate if and when payments are received.

CCC'S JANUARY 28 OFFER

Early in 1982, holders of CCC guarantees informally advised CCC that Bank Handlowy was missing its January payments to them. CCC remained in close communication with those holders, and as of January 28 it seemed clear that Bank Handlowy would not make its payments and that CCC would soon be called upon to meet its guarantee obligations.

CCC decided to take such steps as it could within its statutory authority to avoid the risk of Poland being formally declared in default by its creditors. Consequently, on January 28, 1982, CCC issued an offer to all of the holders of outstanding CCC guarantees covering credits to Poland. That offer provided a mechanism whereby CCC would repurchase its obligations under those guarantees on a payment by payment basis under terms which did not alter—and in fact under one option of the offer there was the potential to improve—the financial position of CCC compared to its position under the payment mechanism provided in the regulations. At the same time the offer did not require the holder to file a formal notice and claim with CCC.

Specifically, CCC offered to repurchase its outstanding guarantee obligations covering missed payments by Bank Handlowy under one of two options on a payment by payment basis. The first option was and is fully harmonious with and protective of CCC's rights and liabilities with respect to its obligations under the regulations. Under the second option CCC is relieved of its obligation to cover six percent per annum interest on a payment in exchange for the holder and CCC not sharing in any recoveries either one makes. This second option, if elected by holders, could result in substantial savings to CCC. CCC concluded that it would be in at least as advantageous a position under the offer as it would be under the payment mechanism provided in the regulations.

Under both options the holder must notify CCC whether it has elected one of the options for a given payment. This provides the same notice of default required by the regulations. It alerts CCC of its potential liability and allows it to take such steps as it considers necessary to protect its interests. The holder is also required to file a copy of the foreign bank letter of credit, the ocean carrier or intermodal bills of lading, and the invoices showing the value of the commodity exported. Because the offer applies only to obligations for which the corresponding payment has not yet been paid in full, CCC is fully protected from paying out expect where the scheduled payment has not been received. This requirement together with the required documentation provides CCC with the same ability to make a final determination of its liability and furnishes CCC the same supporting evidence it must have to pursue its rights against Poland as that provided by the claim requirement of the regulations.

CCC also provided in the offer that acceptance of the offer bound the holder to its terms for all outstanding CCC obligations covering credits to Poland. On the other hand, CCC was free to terminate the contract at any time. In this way CCC preserved its option of reverting to the procedures under the regulations whenever it wished to do so. At the same time, the holder is not limited to accepting the options contained in the January 28 offer, but may elect to follow the payment mechanism provided in the regulations.

LEGAL AUTHORITY

CCC was acting within its legal authority in making the January 28 offer to holders of CCC guarantees covering credits to Bank Handlowy. This conclusion is based on two elements: (1) the January 28 offer in no way alters the basic rights and liability of CCC under its obligations but instead offers a possibility of improving CCC's position concerning those obligations and (2) CCC has broad statutory authority to enter into contracts of this type for the settlement of its claims and obligations.

Rights and liabilities of CCC.—Under the terms and conditions of the offer, CCC is no worse off than under the framework established in the regulations and CCC may in fact be in a better position than it would have been had it relied solely on the program regulation framework. Under the first option of the offer, CCC's position is no different than it is under the program regulations. First, Bank Handlowy has failed to make its payments when due. As a result, it is undisputed that CCC is unconditionally obligated to pay holders the amount of their credits guaranteed by CCC, whether under the mechanism of the regulations or under the contract mechanism of CCC's January 28 offer. Second, the procedural requirements under the offer provided CCC the same protection with respect to its rights and liabilities as the procedural notice and claim requirement of the regulations.

Under the second option of the offer, to the extent it is selected by holders, CCC could be in a better position than under the program regulations in that it will not have to pay holders the six percent per annum interest guaranteed by CCC. CCC has determined that this could leave CCC in a better position than insisting on a share of any interest recovery made by a holder.

Statutory authority.—The Commodity Credit Corporation Charter Act (15 U.S.C. 714 et seq.) confers broad authority upon CCC to manage its fiscal affairs. In exercising this authority, CCC is subject to the duty to act in accordance with customary standards of prudent business management.

Section 4(g) of that Act empowers CCC to "enter into and carry out such contracts or agreements as are necessary in the conduct of its business." Section 4(j) of that Act gives CCC the power to "determine the character of and the necessity for its obligations and expenditures and the manner in which they shall be incurred, allowed, and paid." Section 4(k) of that Act authorizes CCC "to make final and conclusive settlement and adjustment of any claims by or against the Corporation or the accounts of its fiscal officers." And section 4(m) provides that CCC "[s]hall have such powers as may be necessary or appropriate for the exercise of the powers specifically vested in the Corporation, and all such incidental powers as are customary in corporations generally." (15 U.S.C. 714b.)

In making its January 28 offer, CCC was using its powers to make and amend such contracts as are necessary to the judicious management of its obligations and its power to settle its claims arising under those contracts. This offer did not affect any other obligations issued by CCC nor did it alter the GSM-101 or GSM-102 regulations. Those regulations continue to govern CCC's obligations covering debts to Poland in the event holders choose not to avail themselves of the alternative contract mechanism offered by CCC and they continue to govern and new guarantees issued by CCC.

CCC was not obligated to amend its regulations in order to make this offer. Those regulations prescribed the rules and conditions under which CCC is willing to issue its guarantees, but once issued those guarantees are contracts between the holders and CCC. Like any such contract, the guarantees are subject to adjustment by the parties in connection with the settlement of their claims and obligations. CCC's offer affected only its rights and the rights of the holders of CCC guarantees to whom the offer was made. CCC was not required to permit the general public to participate in such a settlement by utilizing notice and comment procedures to incorporate the terms of the settlement in the regulations.

In light of the broad statutory authority of the Corporation to enter into contracts to provide for the management of its claims and obligations, and in view of the manner in which CCC has exercised this authority for the benefit of CCC, CCC was authorized to make its offer of January 28, 1982.

As examples, two payment guarantees, one covering yellow corn and the other covering soybean meal, have been attached as examples to show the type of guarantee issued to the U.S. exporter who sells agricultural commodities on deferred payment basis. Normally any proceeds that may be payable by CCC under the guarantee are assigned to a U.S. financial institution that actually finances the export sale.

Attachments.

CCC-627
(10-20-80)

U.S. DEPARTMENT OF AGRICULTURE
Commodity Credit Corporation

CCC EXPORT CREDIT GUARANTEE PROGRAM (GSM - 102)
PAYMENT GUARANTEE

TO: NAME AND ADDRESS OF EXPORTER [redacted]	DATE APPLICATION RECEIVED 3/27/81
	CCC PAYMENT GUARANTEE NO. GSM-102-494

SECTION I - EXPORT CREDIT SALE COVERED

GUARANTEED VALUE $ 3,596,040	COUNTRY Poland	COMMODITY Soybean Meal	QUANTITY 12,000 MT
PORT VALUE $ 3,596,040	EXPORTER'S SALE NO. [redacted]	DATE OF SALE 12/12/80	FOREIGN BANK Bank Handlowy w Warszaw

IMPORTER'S NAME AND ADDRESS Rolimpex	CREDIT TERMS 1/3 of the principal payable annually from on board bill of lading date. Total accrued interest payable not later than each principal payment due date.
FINAL DATE TO EXPORT 4/30/81	

DATE GUARANTEE FEE RECEIVED 3/30/81	AMOUNT OF GUARANTEE FEE RECEIVED $ 24,417.11 0.68%

The contractual obligation of the foreign importer to the exporter for the portion of the port value of the commodity for which credit is extended to the importer must be secured by an irrevocable letter of credit. Information concerning exports made pursuant to the export credit sales contract must be received by CCC within 30 calendar days after export. CCC's maximum liability will be limited to 100 percent of the exported value plus interest not to exceed 6 percent per annum on the unpaid balance.

SECTION II - SPECIAL TERMS AND CONDITIONS

Richard L. Godsey RL

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FISCAL CLEARANCE:

SECTION III - APPROVAL

In consideration of the payment of the guarantee fee and in reliance upon the statements and declarations of the exporter, and subject to the provisions of the CCC Export Credit Guarantee Program (GSM-102) regulations (7 CFR 1493 et seq.) and such supplemental announcements and amendments thereto as are now in effect, CCC hereby accepts the application for GSM-102 Payment Guarantee covering the export sales described above and agrees to pay, in U.S. dollars, to the exporter or its assignee an amount not to exceed the guaranteed value plus eligible interest if there is a default in payment under the foreign bank letter of credit securing the export sale or the related obligation calling for deferred payment in U.S. dollars from the banking institution issuing the letter of credit to a financial institution in the United States.

SIGNATURE L. T. McElvain APR 2 1981	TITLE Director Program Operations Division	DATE 3/31/81

NOTE: Inquiries concerning bank letters of credit securing the obligations of the foreign importer to the exporter should be addressed to the Assistant Treasurer, Commodity Credit Corporation, U.S. Department of Agriculture, P.O. Box 2415, Washington, D.C. 20013, telephone (202) 447-6560 or 447-6561. Information regarding the program or this approval may be obtained from the Assistant General Sales Manager, Export Credits, Foreign Agricultural Service, U.S. Department of Agriculture, Washington, D.C. 20250, telephone (202) 447-3224.

EXPORT CREDITS COPY

BEST AVAILABLE COPY

CCC-627
(10-20-80)

U.S. DEPARTMENT OF AGRICULTURE
Commodity Credit Corporation

CCC EXPORT CREDIT GUARANTEE PROGRAM (GSM - 102)
PAYMENT GUARANTEE

TO: NAME AND ADDRESS OF EXPORTER [redacted]	DATE APPLICATION RECEIVED 3/26/81 CCC PAYMENT GUARANTEE NO. GSM-102-491

SECTION I - EXPORT CREDIT SALE COVERED

GUARANTEED VALUE $ 4,700,000	COUNTRY Poland	COMMODITY Yellow Corn	QUANTITY 30,000 LT
PORT VALUE $ 4,857,247 ✓	EXPORTER'S SALE NO. [redacted]	DATE OF SALE 2/27/81	FOREIGN BANK Bank Handlowy w Warszawie

IMPORTER'S NAME AND ADDRESS Rolimpex	CREDIT TERMS 1/3 of the principal payable annually from on board bill of lading date. Total accrued interest payable not later than each principal payment due date.
FINAL DATE TO EXPORT 4/30/81	
DATE GUARANTEE FEE RECEIVED 3/30/81	AMOUNT OF GUARANTEE FEE RECEIVED $ 31,913.00

The contractual obligation of the foreign importer to the exporter for the portion of the port value of the commodity for which credit is extended to the importer must be secured by an irrevocable letter of credit. Information concerning exports made pursuant to the export credit sales contract must be received by CCC within 30 calendar days after export. CCC's maximum liability will be limited to 100 percent of the exported value plus interest not to exceed 6 percent per annum on the unpaid balance.

SECTION II - SPECIAL TERMS AND CONDITIONS

Richard L. Godsey RG

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POSTED

FISCAL CLEARANCE:

SECTION III - APPROVAL

In consideration of the payment of the guarantee fee and in reliance upon the statements and declarations of the exporter, and subject to the provisions of the CCC Export Credit Guarantee Program (GSM-102) regulations (7 CFR 1493 et seq.) and such supplemental announcements and amendments thereto as are now in effect, CCC hereby accepts the application for GSM-102 Payment Guarantee covering the export sales described above and agrees to pay, in U.S. dollars, to the exporter or its assignee an amount not to exceed the guaranteed value plus eligible interest if there is a default in payment under the foreign bank letter of credit securing the export sale or the related obligation calling for deferred payment in U.S. dollars from the banking institution issuing the letter of credit to a financial institution in the United States.

SIGNATURE L. T. McElvain APR 2 1981	TITLE Director Program Operations Division	DATE 3/31/81

NOTE: Inquiries concerning bank letters of credit securing the obligations of the foreign importer to the exporter should be addressed to the Assistant Treasurer, Commodity Credit Corporation, U.S. Department of Agriculture, P.O. Box 2415, Washington, D.C. 20013, telephone (202) 447-6560 or 447-6561. Information regarding the program or this approval may be obtained from the Assistant General Sales Manager, Export Credits, Foreign Agricultural Service, U.S. Department of Agriculture, Washington, D.C. 20250, telephone (202) 447-3224.

EXPORT CREDITS COPY

BEST AVAILABLE COPY

Frequently, questions arise under the export program regulations which are not clearly treated in the regulations. Some examples would be as follows:

1. Section 1487.8 of GSM-101 regulations. Under this section, CCC is to be notified promptly if payment is not received. It has been determined that if notification is received within 30 days from the payment due date, such notification will be considered to have been filed promptly.

2. Section 1493.10 of GSM-102(c) regulations. Under this section, any losses recovered under the payment guarantee will be distributed on a pro-rata basis as their respective interest may appear. CCC has determined that any payments received in full on the original due dates prior to any loss that may occur for subsequent payments coming due will not be subject to the pro-rata provision.

3. Section 1493.7 of the GSM-102 regulations requires the filing of an export report by the U.S. exporter including a final payment schedule showing the payment due dates of both principal and interest. Since U.S. financial institutions rather than U.S. exporters normally finance the export for the foreign buyer, it has been determined that the payment schedule can be prepared and submitted by the U.S. financial institution.

QUESTIONS SUBMITTED BY SENATOR COCHRAN AND ANSWERS THERETO

Question 1. Detail the legal authority under which the Commodity Credit Corporation (CCC) executes its export credit responsibilities?

Answer. CCC is authorized to conduct export credit operations under a number of different statutes. The broadest and most basic of these is section 5(f) of the Commodity Credit Corporation Charter Act (15 U.S.C. 714c(f)). Section 5 of that Act provides that CCC, "[i]n the fulfullment of its purposes and in carrying out its annual budget programs submitted to and approved by the Congress," may use its general powers, among other things, to "(f) [e]xport or cause to be exported, or aid in the development of foreign markets for, agricultural commodities."

CCC uses the authority of section 5(f) to conduct its GSM-5 Export Credit Sales Program (7 CFR 1488), GSM-101 Noncommercial Risk Assurance Program (7 CFR 1487), and GSM-102 Export Credit Guarantee Program (7 CFR 1493). The GSM-5 program provides direct credit to U.S. exporters for commercial export sales of CCC or private stocks of agricultural commodities. CCC is not presently extending any new credit under the GSM-5 program. Under both the GSM-101 and GSM-102 programs, CCC guarantees U.S. exporters or their assignees against risks involved in export credit sales.

CCC is also authorized to conduct export credit operations under section 4 of the Food for Peace Act of 1966, as amended (7 U.S.C. 1707a). CCC is authorized to conduct its GSM-5 export credit sales program for commercial export sales out of private stocks of agricultural commodities under section 4(a) of that act as well as under section 5 of the Charter Act. CCC relies on section 4(b) of the Food for Peace Act of 1966, as amended, for authority to conduct its GSM-201 Intermediate Credit Export Sales Program for Breeding Animals (7 CFR 1499) and its GSM-301 Intermediate Credit Export Sales Program for Foreign Market Development Facilities (7 CFR 1492).

Under Title I of Public Law 480 (7 U.S.C. 1701 *et seq.*), CCC is authorized to finance the sale and exportation of agricultural commodities to friendly countries on dollar credit terms up to 20 years, and on convertible local currency credit terms up to 40 years.

Finally, under section 201 of the Agricultural Trade Act of 1978 (7 U.S.C. 1707b), CCC is authorized to provide financing to exporters for deferred payment exports sales. CCC is not currently conducting any operations under this authority.

Some of these programs are explained in more detail in the response to question 2 below.

Question 2. Explain all CCC export lending obligations under law, contract, or other arrangements that expose the U.S. Government to financial liability to other nations, or banks lending to other nations.

Answer.

EXPORT CREDIT GUARANTEE PROGRAM (GSM-102)

This program provides protection to U.S. exporters of financial institutions in the United States against nonpayments by foreign banks due to commercial or noncommercial risks without distinction when purchases of U.S. agricultural commodities are financed on credit terms of not more than three years.

NONCOMMERCIAL RISK ASSURANCE PROGRAM (GSM-101)

This program provides protection to U.S. exporters or financial institutions in the United States against nonpayment by foreign banks due only to noncommercial risks when purchases of U.S. agricultural commodities are financed on credit terms of not more than three years.

CCC EXPORT CREDIT SALES PROGRAM (GSM-5)

This program provides direct financing of U.S. agricultural commodity exports for periods up to three years.

CCC INTERMEDIATE CREDIT EXPORT SALES PROGRAM FOR BREEDING ANIMALS (GSM-201)

This program provides direct financing by CCC for the exports of breeding animals on payment terms from over three years to ten years.

CCC INTERMEDIATE CREDIT EXPORT SALES PROGRAM FOR FOREIGN MARKET DEVELOPMENT FACILITIES (GSM-301)

This program authorizes CCC to enter into project agreements with U.S. or foreign private entities, or with foreign governments, under which CCC may finance the sale and export of U.S. agricultural commodities for periods in excess of three years but not more than ten years. Projects financed, including unloading, storage, processing or other market development facilities, must increase the potential for the importing country to purchase U.S. agricultural exports.

PUBLIC LAW 480, TITLE I/III

Under this program, CCC finances the sale and exportation of U.S. agricultural commodities to friendly countries on concessional credit terms (low rates of interest for periods up to 40 years). Under Title I, the country repays CCC in dollars; under Title III, funds from the sale of the commodities in the importing country may be applied against the country's repayment obligation to the United States if the funds are used for specified agricultural self-help programs.

Question 3. Provide a detailed listing, country by country, of all direct and guaranteed loans currently on CCC's books. Include amounts loaned, repayment schedules, arrearages, dates issued, and third parties (e.g., banks) where appropriate.

Answer.

PRINCIPAL DUE AS OF DEC. 31, 1981 [1]

[Dollars in thousands]

Country	Export credit [2]	Export guarantees
Brazil	$37,732	$213,343
Costa Rica		2,867
Cyprus	1,417	
Dominican Republic	12,877	72,398
El Salvador		13,823
Greece	36,391	
Honduras		1,001
Hungary	2,553	
Indonesia	729	
Ireland	1	
Israel—intermediate	17,510	
Jamaica		17,436
Korea	69,869	520,161
Morocco		53,395
Pakistan		22,498
Peru	77,305	150,532
Regular	(45,998)	
Reschedule	(31,307)	
Poland	540,171	840,355
Regular	(322,860)	
Reschedule	(217,311)	
Portugal	51,148	143,760
Romania	41,524	48,981

PRINCIPAL DUE AS OF DEC. 31, 1981 [1]—Continued

[Dollars in thousands]

Country	Export credit [2]	Export guarantees
Sri Lanka		6,299
Spain—intermediate	661	
Sudan		39,296
Thailand	6,454	32,496
Yugoslavia	2,378	18,885
Zaire—reschedule	13,696	
Total	912,416	2,197,526

[1] Export guarantees represent Dec. 31, 1981, balance plus January 1982 deliveries, but not reduced for January payments.

[2] Export credit consists of three segments: Regular equals up to 3 yr credits; rescheduled equals regular credits which have been rescheduled; intermediate equals more than 3 yr but not more than 10 yr.

ATTACHMENT 1.—*U.S. banks advising letters of credit under regular program for Eastern European countries*

Country/U.S. bank:	*Principal in thousands*
Hungary: Citibank NA	$2,553
Poland:	
Bank of America	100,999
Bank of America—International of Chicago	2,292
Bankers Trust Co	16,573
The Chase Manhattan Bank NA	56,019
Chemical Bank	16,768
Citibank NA	109,959
Commerce Union Bank	433
European American Banking Corp	15,130
First National Bank of Chicago	12,855
First Wisconsin National Bank of Milwaukee	13,424
Girard International Bank	46,660
Irving Trust Co	8,753
Marine Midland Bank	4,257
Manufacturers Hanover Trust Co	18,533
Morgan Guaranty Trust Co. of New York	14,789
National City Bank	299
Philadelphia International Bank	3,784
Philadelphia National Bank	3,728
Republic National Bank	41,383
Security Pacific International Bank	12,932
Total Poland [1]	499,570
Romania:	
Bank of America	590
Bankers Trust Co	3,241
European American Banking Corp	2,593
First Chicago International Banking Corp	10,331
First National Bank of Chicago	1,110
French American Banking Corp	5,071
Irving Trust Co	2,777
Manufacturers Hanover Trust Co	15,811
Total Romania	41,524
Yugoslavia: Morgan Guaranty Trust Co. of New York	2,378

[1] The difference between this total and $540,171,000 represents capitatlized interest not identified by bank.

Attachment 2.— *U.S. banks, within countries, holding assignments under export guarantees*

Country/U.S. bank:	*Principal in thousands*
Poland:	
Bank of America	$260,835
Bank of Boston International	8,983
Chemical Bank	19,497
European American Banking Corp	41,832
1st Chicago International, Los Angeles	75,779
1st National Bank of Chicago	162,612
Girard Trust Bank	104,401
Irving Trust Co	29,942
Marine Midland Bank	85,304
Morgan Guaranty Trust Co	5,753
Riggs National Bank	10,802
Amount not assigned	34,615
Total Poland	840,355
Romania: Manufacturers Hanover Trust Co	48,981
Yugoslavia: Bank of America	18,885

Note.—These are the only countries under this program where the information given is readily available.

ATTACHMENT 3.—SCHEDULE OF AMOUNTS DUE UNDER THE REGULAR EXPORT CREDIT PROGRAM BY FISCAL YEAR

[Dollars in thousands]

Country	Balance outstanding Dec. 31, 1981	Fiscal year 1982		Fiscal year 1983		Arrearages [1]	
		Principal	Interest	Principal	Interest	Principal	Interest
Brazil	$37,732	$26,756	$4,440	$10,976	$1,311		
Cyprus	1,417	1,417	163				
Dominican Republic	12,877	9,651	1,319	3,226	447		
Greece	36,391	27,022	4,751	9,369	1,459		
Hungary	2,553	2,553	287				
Indonesia	729	729	84				
Ireland	1	1					
Korea	69,869	53,245	6,790	16,624	2,544		
Peru	45,998	32,694	6,203	13,304	2,162	$5	$1
Poland	322,860	257,448	37,986	65,412	10,286		
Portugal	51,148	35,725	4,139	15,423	2,354		
Romania	41,524	33,190	4,099	8,334	1,289		
Thailand	6,454	5,893	693	561	89		
Yugoslavia	2,378	2,378	245			2,378	245
Totals	631,931	488,702	71,199	143,229	21,941	2,383	246

[1] All of the arrearage in Yugoslavia and approximately ½ of the arrearage in Peru has been paid subsequent to Dec. 31, 1981.

ATTACHMENT 4.—SCHEDULE OF AMOUNTS DUE UNDER RESCHEDULED REGULAR EXPORT CREDITS BY FISCAL YEARS

[Dollars in thousands]

	Peru		Poland		Zaire	
	Principal	Interest	Principal	Interest	Principal	Interest
Balance outstanding, Dec. 31, 1981	$31,307		$217,311		$13,696	
Fiscal year:						
1982	6,261	$2,677		$26,975	3,236	$684
1983	6,261	2,113		27,164	2,206	925
1984	6,261	1,550		27,164	2,018	722

ATTACHMENT 4.—SCHEDULE OF AMOUNTS DUE UNDER RESCHEDULED REGULAR EXPORT CREDITS BY FISCAL YEARS—Continued

[Dollars in thousands]

	Peru		Poland		Zaire	
	Principal	Interest	Principal	Interest	Principal	Interest
1985	$6,261	$986		$27,164	$1,494	$529
1986	6,263	423	$54,328	25,466	1,494	380
1987			54,328	18,675	928	264
1988			54,328	11,884	928	183
1989			54 327	5,093	928	102
1990					464	20
Totals	31,307	7,749	217,311	169,585	13,696	3,809
Arrearages					876	52

ATTACHMENT 5.—SCHEDULE OF AMOUNTS DUE UNDER THE INTERMEDIATE EXPORT CREDIT PROGRAM BY FISCAL YEAR

[Dollars in thousands]

	GSM-201, Spain		GSM-301, Israel	
	Principal	Interest	Principal	Interest
Balance outstanding, Dec. 31, 1981	$661		$17,510	
Fiscal year:				
1982	192	$105		$1,858
1983	192	74		2,298
1984	192	44	1,772	2,246
1985	85	13	2,189	1,994
1986			2,189	1,706
1987			2,189	1,419
1988			2,189	1,132
1989			2,189	844
1990			2,189	557
1991			2,188	270
1992			416	28
Total	661	236	17,510	14,352

ATTACHMENT 6.—SCHEDULE OF AMOUNTS DUE UNDER EXPORT GUARANTEES BY FISCAL YEAR

[In thousands]

Country	Balance outstanding Dec. 31 1981	Fiscal year 1982		Fiscal year 1983		Fiscal year 1984		Fiscal year 1985	
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Brazil	$213,343	$164,642	$14,149	$32,770	$3,302	$14,638	$1,226	$1,293	$52
Costa Rica	2,867	956	229	956	153	955	77		
Dominican Republic	72,398	25,178	3,587	30,456	2,783	15,769	935	995	40
El Salvador	13,823	12,348	646	1,475	30				
Honduras	1,001	501	40	500	40				
Jamaica	17,436	5,516	1,222	5,866	844	5,866	376	188	8
Korea	520,161	334,253	27,613	126,964	12,200	57,786	3,877	1,158	46
Morocco	53,395	16,742	2,905	17,798	2,890	17,798	1,470	1,057	43
Pakistan	22,498	14,931	1,046	7,567	304				
Peru	150,532	51,868	7,405	58,318	6,600	40,346	2,594		
Poland	840,355	266,928	38,858	344,200	26,941	222,356	9,110	6,871	208
Portugal	143,760	46,442	10,183	47,920	7,695	47,920	3,872	1,478	60
Romania	48,981	8,511	2,680	16,327	2,926	16,327	1,623	7,816	313
Sri Lanka	6,299	4,220	440	1,040	166	1.039	84		

ATTACHMENT 6.—SCHEDULE OF AMOUNTS DUE UNDER EXPORT GUARANTEES BY FISCAL YEAR—Continued

[In thousands]

Country	Balance outstanding Dec. 31 1981	Fiscal year 1982		Fiscal year 1983		Fiscal year 1984		Fiscal year 1985	
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Sudan	$39,296	$19,658	$2,942	$9,860	$1,567	$9,778	$784		
Thailand	32,496	13,347	1,496	11,291	1,385	7,858	627		
Yugoslavia	18,885	2,019	686	9,443	790	7,423	224		
Total	2,197,526	988,060	116,127	722,751	70,616	465,859	26,879	$20,856	$770

Question 4. Explain the general collection and repayment practices under the direct and guaranteed loan programs.

Answer. Under the Export Credit Sales Program (GSM-5) Commodity Credit Corporation (CCC) purchases the exporter's account receivable. In support of the receivable CCC requires a letter of credit issued by a United States bank or a letter of credit issued by a foreign bank which is confirmed in whole or in part by a United States bank. Prior to the due dates of payments under the letter of credit, CCC will send drafts to the United States bank with instructions to deposit the funds to CCC's account through a Federal Reserve Bank. The United States bank is obligated to make payment to CCC on the due dates of all amounts under letters of credit which it issued or foreign bank letters of credit which it confirmed. After payment to CCC of confirmed amounts, the bank may request refund from CCC of the amount paid if it certifies to CCC that it is unable to recover funds from the foreign bank due to a non-commercial risk. If CCC finds that inability to recover funds was due to non-commercial risk, CCC will make the refund.

Under the Non-Commercial Risk Assurance Program (GSM-101) and the Export Credit Guarantee Program (GSM-102) repayment is in accordance with the terms of a foreign bank letter of credit issued in favor of the exporter pursuant to an export credit sale requiring payment in United States dollars. The payment guarantee issued by CCC, for a period not exceeding 3 years, protects the exporter or the exporter's assignee (most exporters assign their receivable to a bank) against losses due to failure to receive payment from the foreign bank. In the event that the foreign bank fails to make payment, CCC will make payment to the exporter or the exporter's assignee (see question number 5).

Question 5. With respect to guaranteed loans, explain CCC's role when a foreign nation is in arrears to the lending bank. What triggers CCC's payment as guarantor? Include reference to appropriate regulations, especially with regard to a declaration or determination of default.

Answer. Under the Non-Commercial Risk Assurance Program (GSM-101) if the foreign bank fails to make payment and it apears that the nonpayment is attributable to the occurrence of a non-commercial risk the exporter or the assignee is to promptly notify CCC of the failure to receive payment. Within 30 days after notification to CCC, a written claim for loss is to be filed supported by documentation specified in the regulations (7 CFR 1487.8). CCC then makes a determination as to whether the failure to receive payment was occasioned by the occurrence of non-commercial risk, if CCC determines that it is liable to the exporter or his assignee the exporter or assignee will submit a subrogation instrument to CCC and CCC will then make payment of the loss (7 CFR 1487.9). If the exporter or assignee subsequently receives payment from the foreign bank, importer or any other source, a refund is made to CCC (7 CFR 1487.10).

Under the Export Credit Guarantee Program (GSM-102) if the foreign bank fails to make payment, the exporter or the exporter's assignee is to notify CCC if payment is not received within 10 days of the due date, or any extension thereof by CCC. Within 30 days after the notice to CCC, or any extension thereof by CCC, a claim for loss is to be filed supported by documentation specified in the regulations (7 CFR 1493.8). CCC will then determine whether a loss has occurred for which it is liable under the guarantee. If CCC determines that it is liable to the exporter or his assignee payment is made (7 CFR 1493.9). If the exporter or assignee subsequently receives payment from the importer, foreign bank or any other source, a refund is made to CCC (7 CFR 1493.10).

Under the above programs, CCC does not make a declaration or determination of default. CCC makes a determination as to whether it is liable to the exporter or his assignee based upon a claim for loss filed by the exporter or his assignee.

Question 6. Explain the process within the Administration by which decisions are made with regard to CCC payments for overdue loans. How are other departments and agencies involved in that decision making?

Answer. Once a claim is made, CCC has no option, but it must pay claim provided proper documentation is provided. No other department or agency is involved.

Question 7. Provide a breakdown of all CCC outlays for export credit and domestic price support programs for fiscal year 1981 and fiscal year 1982 to date.

Answer.

Major programs	Outlays in thousands	
	Fiscal year 1981	Fiscal year 1982[1]
Export credit sales	$11,509	$6,657
Export credit guarantees	61,018	97,594
Commodity loans	5,623,236	4,683,756
Storage facility loans	225,865	75,784
Commodity purchases	2,503,277	331,334
Producer payments	1,029,989	602,116
Total	9,454,894	5,797,241

[1] Represents outlays through Dec. 31, 1981.

Question 8. Provide a schedule of any anticipated CCC payments to be made to banks holding loans to foreign countries. Include any anticipated CCC losses on direct loans under the export credit program.

Answer. At this time there can be no anticipated payments to be made to banks holding loans to foreign countries under the Non-Commercial Risk Assurance Program and the Export Credit Sales Program. Payments are made only after filing, by the exporter or assignee, of a claim for loss or, in the case of Poland, acceptance of CCC's offer to repurchase its outstanding obligations under the assurance agreements and payment guarantees. Through March 3, 1982, only one bank has accepted CCC's offer and payment of $153,882.45 was made to the bank on February 18, 1982. There are no anticipated losses to CCC on direct loans under the Export Credit Sales Program.

Question 9. How do payments made by CCC to banks holding foreign loans relate to the $5 billion emergency supplemental recently enacted by the Congress to reimburse the CCC for net realized losses?

Answer. The $5 billion supplemental appropriation to Commodity Credit Corporation (CCC) restored previously unreimbursed realized losses of the Corporation resulting primarily from programs operated during crop years 1980 and 1981. These losses result primarily from costs associated with CCC price support inventories, disaster and deficiency payments to producers, emergency feed payment programs, and expenses incurred in maintaining storage for the grain reserve.

No realized losses have been incurred by CCC with respect to the making or guaranteeing of export credit to any country involved in these programs at this time. The only realized loss that has been recorded by CCC on the direct or guaranteed credit programs was a loss of less than $1 million on the Export Credit Sales Program which resulted from the closing of Intra Bank, Beirut, Lebanon in 1966. At present all of the amounts due to CCC under the Export Credit Sales Program and amounts paid by CCC to exporters or assignees under the Non-Commercial Risk Assurance Program and the Export Credit Guarantee Program, because of failure to receive payments from foreign banks, are maintained in the Corporation's records as accounts receivable. There are no current losses from this debt.

Question 10. In your budget request for fiscal year 1983, what, if any, funds requested will be used to make guaranteed loan payments to private lending institutions or reimbursements for direct loans.

Answer. The fiscal year 1983 budget request for Commodity Credit Corporation contains no request for funds to make guaranteed loan payments or reimbursements for direct loans. The 1983 budget request is for amounts sufficient to reimburse the Corporation for its net realized losses sustained in prior years but not previously reimbursed.

Question 11. Explain any direct or guarantee loan activity planned for fiscal years 1982 and 1983.

Answer. For these two fiscal years activity is planned in the Export Credit Guarantee Program (GSM-102). The authorization ceiling for both years is $2.5 billion. This is increase over the fiscal year 1981 authorization level of $2.3 billion, almost all of which was authorized and which resulted in shipments of $1.8 billion of agricultural commodities.

[Subsequent to the hearing of March 12, the following questions were sent to the Department for response.]

DEPARTMENT OF AGRICULTURE,
Washington, D.C.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Please find enclosed the material that you requested for incorporation into the hearing record of March 12, 1982.

I appreciated the opportunity to testify before the Committee on the Polish debt situation. It is our hope that the information provided will be helpful to the Committee.

Sincerely,

THOMAS A. HAMMER,
Deputy Under Secretary.

Enclosures.

Question 1. In the context of CCC's overall program activities and its total $20 billion borrowing authority, how do you rank the Polish debt exposure to CCC in importance?

Answer. CCC's total exposure on both direct credit and guarantees extended to Poland represents about 7 percent of the borrowing authority of $20 billion. This compares with about 52 percent of the borrowing authority in commodity loans and 19 percent in inventories of commodities. Therefore, the possible exposure in Poland is less than 10 percent of the total amount of commodity loans and inventories of the Corporation and this is only in the extreme case that all of the outstanding Polish debt becomes the responsibility of the United States Government.

Question 2. What about the debt of other Soviet bloc nations to CCC?

Answer. The total exposure of CCC on both direct credit and guarantees to other Eastern Bloc nations (Hungary, Romania and Yugoslavia) is about $114 million or slightly over one-half of one percent of the total borrowing authority.

Question 3. Along this same line, if CCC were to write off as a bad debt its direct credits to Poland, and to make payment on all guaranteed Polish loans, what impact would this have on CCC?

Answer. If CCC were to write off as a bad debt its direct credits to Poland, make payments on the guaranteed loans and likewise write those payments off as a bad debt, the realized losses of the Corporation would be increased by the amount of the write-offs. The write-offs would occur over eight fiscal years, $563 million in 1982, $437 million in 1983, $231 million in 1984, $7 million in 1985 and $54 million in each year 1986 to 1989. The increased realized losses would in turn increase the appropriated funds required to reimburse CCC for its losses.

Question 4. If the writing off or payment of these debts were to happen, do you anticipate any need for Congressional action to increase CCC's borrowing authority?

Answer. Present projections of expenditures of CCC show that even without the writing off or payment of Polish debts there is a need for an increase in the borrowing authority. Any additional expenditures enhance the need for the increase.

APPROVAL OF LOAN GUARANTEE APPLICATION

Question 5. When processing an application under the export credit guarantee program, exactly what does CCC do to verify the soundness of the loan to which the guarantee will be applicable?

a. Describe in detail all aspects of the verification process.

b. Does CCC apply a particular standard or test to judge the loan payments will, in fact, be made by the foreign country?

c. Specifically, what information about the economic condition of the recipient country does CCC consider?

Answer. The export credit guarantee program development process considers several different sets of financial criteria. These criteria can be broadly categorized as assessments of repayment ability over the guarantee period by the foreign bank providing the letter of credit to U.S. lenders that is in turn, guaranteed by CCC. This criteria includes an assessment of both commercial risk and political risk. In this context commercial risk refers to the estimated probability that the foreign bank or banks that open a letter of credit in favor of U.S. exporters covered by a CCC export credit guarantee will meet its obligations in making payments. The financial risk assessment process begins with a review of a foreign country's current acçount. The foreign bank's financial condition is reviewed to determine the limit of guarantee coverage that can be made available to the proposed opening bank. Additionally, the record of repayment to the U.S. Government, where applicable, is reviewed and factored into the analysis of financial risk. The individual elements are combined to provide an overall assessment of individual country credit-worthiness. Beyond that, U.S. financial institutions provide additional feedback to the assessment process, albeit on a defacto basis, because they share the risk of non-payment with CCC financing that they provide under the Export Credit Guarantee Program. This program is reviewed for advice and opinion by the National Advisory Council, an interagency committee on financial affairs, before a program is initiated. This committee provides information and analytic conclusions from the Treasury and Commerce Departments, as well as other U.S. Government agencies.

Question 6a. Do you agree that hard data on which the condition of the Polish economy could be accurately judged has not been available in recent years? On the other hand, is it not fair to say that since 1976 there have been many indicators of the pending financial crises in Poland? If not since 1976, when did these signals first come to CCC's attention?

Answer. The data used in making this determination was similar in source and accuracy to data used in most other country credit programs. Data sources included various U.S. Government agencies, including the Treasury, and Commerce Departments, U.S. Embassy staff in Warsaw provided on-site information, while U.S. bankers provided additional input to the situation monitoring activities.

Question 6b. What information did CCC rely on in making the determination to approve export credit guarantees on loans to Poland since January 1981?

Answer. By January 1981 much of the $670 million in credit guarantees allocated to Poland had alreacy been committed. In addition, U.S. banks had made commitments based on this guarantee coverage. The opinions of these bankers were solicited in making this guarantee coverage determination. The Export Credit Guarantee Program depends on its partnership with the banks to promote agricultural exports.

Other information used in this situation was provided by many sources including interagency committees of the U.S. Government, the Department of the Treasury, the U.S. Embassy in Warsaw, and other U.S. Government sources. The Polish Government was consulted for information.

Question 6c. What information did CCC rely on in approving direct credit and guarantees for Poland during the period 1976 through 1980?

Answer. Information and advice was gathered and solicited from a wide variety of sources. Interagency committees such as the National Advisory Council, the Treasury and Commerce Departments, and other U.S. Government sources were consulted. The opinions of U.S. bankers were solicited. Information was also provided by the U.S. Embassy in Warsaw, as well as by the Polish, and other European Governments.

Question 7. In light of the Polish debt problem, has the Department reevaluated its export credit policies toward Soviet bloc countries?

Answer. The Department's export credit activities in Eastern Europe have predominantly been in Poland. This type of activity is no longer appropriate due to Poland's debt situation. Additionally the Administration has recently put export credit consideration for Romania in abeyance and the Department closely monitors financial conditions throughout the Soviet bloc.

Question 8. Apparently Poland comprises approximately 60 percent of the direct credit total. That seems to be a very large percentage. What is your explanation of that?

Answer. There seems to be some confusion on this issue. The GSM-5 direct credit program has provided approximately $9.17 billion worth of export financing since its inception in 1956. Poland received about $1.6 billion, 20 percent of the program total over the period 1962 through 1980. Poland was a burgeoning market for U.S. agricultural exports on a credit basis for more than 20 years which explains its share of direct credit financing.

Question 9. Has Poland made any repayments to banks or to CCC under the export credit programs in calendar year 1982? How much?

Answer. Under the export guarantee programs, CCC will only receive information if payments are missed. We assume that payments are made unless the exporter or his assignee notified us of missed payments. Through March 25, CCC has been notified by four banks that a total of $49.9 million in payments due since January 1, 1982, had not been made by Poland. Poland has not made any payments due CCC in calendar year 1982 under the direct export credit program.

Question 10. Has CCC made payments to any U.S. banks in calendar year 1982? How much? To whom?

Answer. Under the guarantee programs, on February 18, 1982, CCC paid Bank of Boston International $153,882.45. Chemical Bank, New York, has filed requests for payments totaling $9.3 million dollars, First National Bank of Chicago for $40.2 million and Morgan Guaranty Trust Company for $191 thousand. Payment will be made upon receipt, by CCC, of required documentation.

Question 11. In your opinion, when does a payment arrears become a default? Ever?

Answer. There appears to be some confusion about the meaning of the word "default." In our opinion a default is simply a failure to pay money when due and carries no other connotation. Therefore, when a debt is one day overdue it could be said to be in default. However, the default could then be corrected by payment on the second day after the due date. If default is used in the sense that we understand banks to use the term default; it is necessary to decide on a case by case basis when a payment in arrears would constitute a default in the banking sense.

Question 12. It is my understanding that CCC has offered to repurchase its obligations from holders of CCC guarantees without requiring these holders to submit the official "notice of default" documents provided for in the regulations. Explain briefly the procedure CCC is using.

Answer. Under the terms of the January 28, 1982 offer, CCC guarantee holders who accept the offer must notify the Treasurer of CCC as to which of the two options in the offer the holder is electing for any given missed payment. This notice of election must be submitted to CCC within the time limits specified in the offer, unless the Treasurer agrees otherwise, and it must be accompanied by all the documents that CCC needs to pursue its rights against Poland to collect for that payment. The procedure CCC is using is described in more detail in the memorandum entitled "Legal Authority for CCC's Offer of January 28, 1982 to Holders of CCC Guarantees Covering Credits to Poland" submitted to the committee in response to question 7 of the questions provided to USDA prior to the March 12 hearing.

Question 13. Since it is clear that the Department believes CCC can act in the manner it has in the absence of specific regulations, what legal obligation was there—if any—for CCC to adopt the export credit regulations in the first place?

Answer. Section 4(d) of the CCC Charter Act (15 U.S.C. 714b(d)) provides that CCC "[m]ay adopt, amend, and repeal bylaws, rules, and regulations governing the manner in which its business may be conducted and the powers vested in it may be exercised." Section 4(g) of that same act provides that CCC "[m]ay enter into and carry out such contracts or agreements as are necessary in the conduct of its business." These provisions vest CCC with the discretion to choose the manner in which it conducts its business. CCC was authorized to promulgate regulations establishing the framework for its guarantee programs, but it was not legally obligated to do so.

Question 14. The GSM-101 program regulations provide that a notice of default must be promptly sent to CCC after a foreign bank misses a payment and that 30 days after that notice the holder of the guarantee must provide CCC with a claim of loss (7 CFR 1487.8). Is that correct?

Answer. Yes, except that the claim for loss is to be filed within 30 days after the notice to CCC.

Question 14a. Similarly the GSM-102 regulations provide that the guarantee holder shall notify CCC of any failure of payment within 10 days after the due date of the payment and that the claim of loss must be made 30 days thereafter (7 CFR 1493.8). Is that correct?

Answer. Yes, except that the claim for loss is to be filed within 30 days after the notice to CCC.

Question 14b. What is the purpose of these filing deadlines?

Answer. The purpose of the time limits is to assure that notices and claims are submitted to CCC on a current basis as events occur and to provide CCC with information as to the current status of the transactions. If no notice of delinquency is received CCC assumes the debt has been paid and it no longer has a contingent liability. If a notice of delinquency is received CCC knows that a contingent liability is becoming an actual liability and CCC may then take the steps it considers appropriate. Similarly, CCC requires a timely filing of the claim in order for CCC to be able to act as it believes appropriate before the flow of events seriously prejudices the interests of CCC.

Question 14c. What effect, if any, would it have on CCC's obligation if a guarantee holder failed to meet any of these deadlines?

Answer. If the guarantee holder failed to meet the filing deadlines specified in the regulations, and did not request an extension from CCC, CCC would not be required to honor the holder's claim.

Question 14d. Has CCC ever refused to honor a claim because of late filing of the notice or other claim information? Could it refuse to do so and be sustained in a court of law?

Answer. There have not been any notices or claims for loss under the export guarantee programs which have been filed late. It is impossible to predict with certainty that a court would sustain a refusal by CCC to honor claims that are filed late. However, CCC would expect a court to uphold its actions as consistent with the law and neither arbitrary, capricious or an abuse of discretion.

Question 14e. Have any of the firms holding CCC guarantees for the Polish loans filed notices of default or claims within the specified deadlines.

Answer. No.

Question 14f. Has CCC officially extended any of the filing deadlines provided for in the regulations?

Answer. Yes. These deadlines have been extended to March 26 for payments that would otherwise require earlier filing.

Question 14g. Once a regulation has been adopted by CCC, what, if any, obligation do you believe CCC has to follow it?

Answer. CCC is generally bound to follow its regulations subject to the exceptions which have been delineated by the courts. However, CCC retains its full statutory discretion to act in those areas to which the regulations do not apply, and CCC is not obligated to exercise that discretion through the rulemaking process, but may use any mechanism available to it (see response to question 13 above).

STATEMENT OF R. T. MCNAMAR, DEPUTY SECRETARY OF THE TREASURY, U.S. DEPARTMENT OF TREASURY

Mr. Chairman, I welcome this opportunity to discuss the relationship between the Polish financial and economic situation and the Commodity Credit Corporation's export lending activities with you and other members of the Committee.

As you know, we have already submitted for the record the answers to the questions you posed in preparation for these hearings. I have attached those questions and answers to this statement. Therefore, in my prepared statement, I will elaborate on two of the major points of your concern.

I would like to begin by commenting on the reasons why the Administration has chosen not to declare Poland in default at this time. There has been considerable confusion and misunderstanding in the press and elsewhere regarding this decision.

Subsequent to the imposition of martial law in Poland on December 13, 1981, the United States and other official creditors decided to take the following initial steps to bring financial pressure to bear on the military government of Poland: (1) Government credits and export guarantees, except those of a humanitarian nature, were terminated; (2) 1982 Polish debt rescheduling discussions were indefinitely suspended; and (3) official creditors insisted that Poland meet its 1982 obligations as they fall due and pay up the arrearages on the 1981 obligations that were not previously rescheduled during 1981.

The U.S. has also taken a number of additional steps:

We have suspended Poland's 1982 fishing rights in U.S. waters.

We have halted the renewal of the U.S. Export-Import Bank's line of credit insurance to Poland.

We have held up the shipment of surplus dairy products.

We have suspended Polish civil aviation landing rights in the U.S.

By taking these steps we instituted a process so that money is now flowing from Poland to the West rather than the West to Poland as was the case during the last several years. By adhering to a policy of insisting on repayment while not providing any new funds—the private lenders have also severely curtailed lending to Poland—we are creating a situation that maintains financial pressure on the Polish military regime and through them on the USSR.

Some have argued that a formal declaration of default would serve to curtail financial credit to Poland. There are no credits going to Poland at this time, and some of the other Soviet bloc countries, which are experiencing serious economic and financial problems, are finding it increasingly difficult to borrow.

Although a formal declaration of default would not affect Poland's legal obligation to repay its debts to U.S. lenders, the Polish government could attempt to avoid paying U.S. lenders. In turn, this would make scarce hard currency available to pay for additional imports which they otherwise could not purchase.

Some have suggested that the United States should declare Poland in default of its obligations and satisfy these obligations by attaching its assets.

While the United States could attempt to recover some of the funds it loaned Poland in this way there are, however, virtually no Polish assets. In fact, the court costs involved in such an effort might even exceed the value of the property attached.

In short, we have opted for an approach that is draining resources out of Poland rather than taking what would essentially be a symbolic gesture. And, by not declaring Poland in default and continuing to insist on their meeting their obligations, we are also indirectly bringing additional financial pressure to bear on the Soviet Union—the real instigator of the repressive regime in Poland. As a result of not declaring a default, the Soviets are now pressured to provide additional economic resources to keep the Polish economy functioning at some minimally acceptable level and to assist the Poles in meeting their hard currency debt service payments to avoid further damage to Poland, other bloc countries, and the Soviet Union.

I will now comment briefly on the CCC export guarantee program and on CCC's offer to U.S. banks that has also been the subject of much discussion.

When an exporter enters into a guarantee contract with CCC, CCC becomes legally obligated to make payments to the exporter or its assignee bank in the event the foriegn importer's bank fails to meet its payment obligations. This obligation is similar to that undertaken in other U.S. Government loan guarantee programs such as the Export-import Bank's Financial Guarantee Program for exports of manufactured goods. In order for the holder of the guarantee to collect from CCC, the holder must first notify CCC that a payment has been missed and then file a claim together with the necessary supporting documentation. Once the holder of the guarantee has filed its claim with CCC, CCC must then pay the holder the amount of the guarantee. The holder then transfers to CCC the holder's interest in the missed payment. The foreign borrower is in no way relieved of any obligation—it still owes the identical amount. Only now it must pay CCC for the missed payments and it must continue paying the guarantee holder the remaining payments as they fall due.

I would also like to emphasize that these payments do not mean—as has been alleged—that the CCC is bailing out the banks. The banks were certain of being paid. The CCC guaranteed the credits involved. In the absence of Polish payments, the CCC is obligated to honor its guarantees.

Although CCC regulations refer to the notice document as a "notice of default," it in fact is simply a notice of nonpayment. It does not constitute a formal declaration by the holder of the guarantee or by the U.S. Government that the foreign bank is in default. A formal declaration of default in a loan agreement typically involves triggering specific penalty provisions of the loan agreement, including declaring the entire debt to be immediately due and payable, and perhaps increasing the rate of interest charged on the outstanding balance due. A formal declaration may also entitle the loan holder to seize the debtor's assets in an attempt to satisfy the debt.

The key point to be made is that although the underlying credit agreement the exporter has with the foreign bank may permit the exporter to declare a formal default in the event of a missed payment, CCC does not require the guarantee holder ot declare a formal default in order to trigger CCC's liability. CCC simply requires prompt notice that a payment has been missed to exercise its obligation to honor its guarantee.

The January 28 offer of CCC to repurchase guarantee obligations it had made to exporters who had extended credits to Poland (or the assignee banks) does not differ substantially from what would happen if the holders filed a notice and claim as provided under CCC regulations. (CCC would discharge its obligations by purchasing the claim rather than have the banks file and then paying.) However, CCC made this offer because of the concern that some of Poland's other official or unofficial creditors might incorrectly believe that the filing of a claim on a CCC guarantee constituted a declaration of default. The January 28 offer is intended to prevent the adverse consequences that could have resulted from an unintended non-CCC declaration of default based on a misunderstanding of the meaning of the notice and claim procedures used by the CCC.

I will be happy to answer any questions which you or other members of the Committee may have.

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C., March 16, 1982.

Hon. R. T. MCNAMAR,
Deputy Secretary, U.S. Department of the Treasury, Washington, D.C.

DEAR MR. MCNAMAR: Let me again express my thanks to you for appearing before the Committee on Agriculture, Nutrition, and Forestry for the hearing on "Soviet Bloc Debt and the Financial Integrity of CCC" on March 12.

As I mentioned during the hearing, I have enclosed a series of questions for your response with this letter that relate to international financial arrangements affecting the foreign policy of the United States, as well as the rationale for the Administration's policies on external lending to the Soviet bloc.

In addition to the attached questions, I would appreciate your elaborating on the matter of Poland's future credit needs and the Administration's current policy towards Poland's indebtedness.

If, in fact, you concede that Poland may need as much as $6 billion in 1982 in order to maintain the flow of necessary inputs, with credit demands possibly reaching as high as $15-20 billion over the next two to three years, I am curious as to where you expect Poland will obtain such new credits. Is this Administration going to unconditionally provide new credits to Poland and other Soviet bloc nations under the guise that they are making minimal payments on current loans?

Sincerely,

JESSE HELMS,
Chairman.

Enclosures.

THE DEPUTY SECRETARY OF THE TREASURY,
Washington, D.C., April 20, 1982.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I am responding to your letter of March 16, 1982, in which you asked several follow-up questions to my testimony of March 12, 1982. Answers to the questions which you asked in that letter are enclosed. In addition, you also asked that I elaborate on Poland's future credit needs and the Administration's current policy towards Poland's indebtedness.

Prior to the imposition of martial law, it was estimated that Poland would need to import from the West about $6 billion of food, spare parts, and raw materials in 1982. Poland also has debt service obligations to western banks and governments in excess of $10 billion in 1982. Export income for 1982 was projected at about $6 billion, leaving Poland's net hard currency financing needs roughly equal to their debt service obligations.

Before martial law it was clear that Poland would require rescheduling of 1982 debts and new capital inflows from the West if it was to maintain imports and meet even rescheduled debt obligations. In the post martial law period, Poland's situation will be even more difficult. We are not putting any new money into Poland, and other official creditors have agreed to follow this policy. In addition, we and other official creditors have agreed not to enter into negotiations on 1982 debt until: (1) martial law is relaxed; (2) the detainees are released; and (3) the regime begins negotiating with Solidarity and the Church.

This will require the Poles to make more difficult economic policy choices and/or increase pressures on the Soviets to provide financial support. This is happening at the present time, and we expect that the burden on the Soviets will continue to increase.

I hope you will find this information and the attached answers helpful.

Sincerely,

R. T. MCNAMAR.

Enclosures.

Question. How close are Romania and other Soviet bloc nations to defaulting on loans to the West? What is the ability of each of these nations to actually meet its credit obligations to the West?

Answer. The Romanians are in a very difficult financial situation. They have been negotiating with the private banks for rescheduling 1981 arrearages and a portion of their 1982 debt. We anticipate that they will ask the United States and other official creditors to reschedule a portion of their 1982 debt.

Other Soviet bloc countries face differing financial and external debt situations. With the exception of Poland and taking into account Romania's situation as discussed above, all other Eastern European bloc countries are presently meeting their obligations to the West. While there is no clear evidence that that situation will change for any particular country during the course of 1982, that will depend upon circumstances during the year.

Question. Does the Administration intend to continue to extend further government loans or loan guarantees to those countries, including Poland?

Answer. We have no plans to do so at this time. The United States recently turned down a request for a CCC guarantee for Romania. No new credits or guarantees are currently being provided for these countries.

Question. What has been the practice of Soviet bloc nations in making repayments on their loan obligations:

1. Are they paid back, or is the interest generally folded into the principal and new loans renegotiated when the loans become due?

2. When precisely did the practice of folding interest into principal begin?—was it 1981, 1980, or 1976—or when?

Answer. Until last March, these countries had promptly honored their debt obligations. At this time, Poland is in arrears on its debt obligations to the United States Government. Other countries are current on their debt service to the USG.

Regarding your query on folding interest into principal, i.e., capitalizing the interest, this practice is only undertaken in the context of a rescheduling of official debt. However, interest on the rescheduled principal and interest is charged to the debtor. This serves as cost to the debtor for the continued use of the money originally provided.

The United States Government first capitalized interest in the 1956 multilateral rescheduling of Argentina's debt. Since then we have capitalized interest in other debt reschedulings where it appeared financially necessary.

Question. What is the status of Poland joining the IMF? What is the background? Who initiated the idea that Poland should have access to the IMF? Was it U.S. and Western banks seeking government protection from the possibility of the loans never being repaid?

Answer. The IMF is continuing the necessary technical work for considering Poland's application for membership. IMF teams have visited Warsaw twice in order to compile the comprehensive economic and financial information required to determine the appropriate size of any Poliah quota in the IMF and to explore with the Polish authorities the rights and obligations of membership. There remains considerable work to be done, and it is not possible at this time to indicate when the process might be concluded.

Decisions whether to apply for IMF membership are for the government concerned to make. The possibility of a Polish IMF membership application has been rumored from time to time for years. It is not clear what prompted Poland to apply for IMF membership at this time although a need to deal with mounting economic problems was undoubtedly an important consideration.

Question. Administration statements to the effect that declaring Poland in default would place the Western banking system in a perilous position have been questioned by some renowned financial specialists such as Arthur Burns, Felix Rohatyn, and others. Can you give this Committee your analysis of the impact of such a default and contrast that situation to the impact of simply continuing the status quo.

Answer. To my knowledge, no spokesman of this Administration has suggested that declaring Poland to be in default would place banks in a perilous position. I would note, in addition, that a declaration of default by the U.S. Government would not necessarily be followed by similar declarations by other countries, and the impact on the status of banks' claims on Poland of such a declaration by the U.S. is unclear.

More relevant to the banks' positions is the ability and willingness of Poland to service its debts over the medium and long term. If Poland's situation became one of either a total inability (for economic reasons) or unwillingness (repudiation) to pay, the impact on some of the lending banks would most likely be considerable, but losses could be absorbed for the most part out of profits and reserves.

By not declaring Poland in default money is now flowing from East to West rather than the reverse as was the case in recent years.

Question. What has been the impact of all this loan activity on the availability of credit in the West?

Have the Soviet bloc loans absorbed credit that would have otherwise been available in the West—and in the United States?

Answer. It is impossible to say with any precision what would have happened had Western banks been unwilling or unable to lend to the Soviet bloc, but it is likely that the impact on the availability of credit in the United States would have been practically nil and in Western Europe exceedingly small. Net lending to Comecon during the last several years amounted to only a tiny proportion of total lending, both domestic and foreign. Furthermore, in the absence of lending to the Soviet bloc, Western banks might have lent more to various LDCs rather than to Western borrowers.

[Prior to the hearing on March 12, 1982, the following questions were sent to the Department for responses:]

MARCH 9, 1982.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your letter of March 2, 1982, in which you raised a number of questions relating to the Commodity Credit Corporation's (CCC) export lending activities in Poland. The questions you raised and our responses to them are enclosed.

I trust this is the information you require.

Sincerely,

MARC E. LELAND,
Assistant Secretary, International Affairs.

Enclosure.

Question 1. Why did the Administration choose not to declare Poland in default?

Answer. We believe that by not declaring Poland in default at this time we are bringing maximum pressure to bear on Poland and the Soviet Union by promoting a continued flow of hard currency from Poland to the West. We still retain the option of declaring Poland in default.

Question 2. Were the USDA's Commodity Credit Corporation's (CCC) regulations on paying guarantees to the banks adhered to in payment to U.S. banks?

Answer. The January 28, 1982 offer of the CCC to holders of CCC guarantees covering credits to Poland is clearly within the CCC's legal authority and is consistent with the laws and regulations governing the CCC. This conclusion is based on two elements: (1) the January 28 offer in no way alters the basic rights and liabilities of CCC under its obligations but instead offers a possibility of improving CCC's position concerning those obligations, and (2) CCC has broad statutory authority to enter into contracts of this type for the settlement of its claims and obligations.

The regulations that set forth the procedures for payment in connection with CCC's guarantees under the GSM-101 and GSM-102 programs provide that in order for the holder of the guarantee to collect from CCC, the holder must first notify CCC that a payment has been missed and then file a claim, together with supporting documentation. Although the notice document provided for in CCC's regulations is termed a "notice of default," CCC's definition of default for purposes of notification is fundamentally different from the concept of default in banking circles. Moreover, the notice required by CCC's regulations has a different purpose from a declaration of default in the banking context.

Under the CCC regulations, "default" is defined as occurring when a payment by the borrower has been missed. The purpose of requiring the holder of the guarantee to notify CCC that the foreign bank has failed to make a remittance is to alert CCC to its imminent liability for that payment and to allow it to take such actions as it considers appropriate to protect its interests. On the other hand, a formal declaration of default in the banking context commonly involves triggering the penalty provisions contained in the agreement with the debtor, including declaring the entire debt to be due and payable and increasing the rate of interest charged on the outstanding balance due. A formal declaration may also trigger efforts to seize the debtor's assets in an attempt to satisfy the debt. CCC does not require such a declaration of default by the holder in order to trigger CCC's liability. CCC simply requires prompt notice that a payment has been missed. The notice could have as well been styled a "notice of overdue payment" or a "notice of nonpayment". CCC nevertheless made its January 28 offer to guarantee-holders because it felt that other lenders not familiar with the CCC terminology might mistakenly believe that the filing of a "notice of default" with the CCC constituted a declaration of default.

While dispensing with the requirement to file a "notice of default", the January 28 offer otherwise closely approximates the terms on which the CCC would make payment on a claim. The procedural requirements under the offer provide CCC the same protection with respect to its rights and liabilities as the procedural notice and claim requirements of the regulations. Moreover, substantively, the terms and conditions under which CCC made its offer did not alter—and, in fact, under one option of the offer there was the potential to improve—the financial position of CCC compared to its position under the original guarantee contract.

As for the second element set forth above, the Commodity Credit Corporation Charter Act, 15 U.S.C. sections 714 et seq. (the "CCC Act"), confers broad authority upon the CCC to manage its fiscal affairs. The CCC, therefore, is not limited to making payments under its guarantees only according to the terms of its regulations. It has sufficient statutory authority to amend the terms of the guarantee contracts without amending its regulations. In exercising this authority, CCC is subject to the duty to act in accordance with customary standards of prudent business management.

Section 4(g) of the CCC Act empowers CCC to "enter into and carry out such contracts or agreements as are necessary in the conduct of business". Section 4(j) give CCC the power to "determine the character of and the necessity for its obligations and expenditures and the manner in which they shall be incurred, allowed, and paid". Section 4(k) authorizes CCC "to make final and conclusive settlement and adjustment of any claims by or against the Corporation or the accounts of its fiscal officers". Finally, section 4(m) provides that CCC "[s]hall have such powers as may be necessary or appropriate for the exercise of powers specifically vested in the Corporation, and all such incidental powers as are customary in corporations generally". (15 U.S.C. section 714b.)

In making its January 28 offer, CCC was thus using its powers to make and amend such contracts as necessary to the judicious management of its obligations and its powers to settle its claims arising under those contracts. CCC was not obligated to amend its regulations in order to make this offer. Those regulations prescribe the rules and conditions under which CCC is willing to issue its guarantees, but once issued, those guarantees are contracts between the holders and CCC. Like any other contract, the guarantees are subject to amendment by the parties to the contract.

Question 3. What are the ramifications of declaring Poland and possibly other nations in default under the program?

Answer. The ramifications of declaring Poland and possibly other nations in default under the program would depend to a large extent on the reactions of other governments and private creditors. Other western governments are not obligated to follow the United States in this respect. Private banks would be under no compulsion to declare a default, and they would only have a clear incentive to do so if they expected the U.S. or other governments, as a result of their declarations of default, to obtain a preferred position in any subsequent legal steps against Polish assets. Banks probably would not follow suit if they felt that declaration of default would prejudice their chance of ultimately being paid. Thus, it is conceivable that a declaration of default under the CCC program would not basically alter the status quo.

However, a declaration of default could conceivably trigger the invocation of cross default clauses in private bank loans to Poland. Syndicated or negotiated loans normally carry default and "cross-default" clauses in the loan agreement. These clauses describe when and how the lenders can declare a borrower to be in default. The clauses are not uniform and vary from loan agreement to loan agreement and bank to bank.

A "cross default" clause merely states that a default can be declared on a specific loan if any other loan to the borrower is in default. The invocation of cross default clauses could trigger legal action by creditors in an effort to seize Polish assets, of which there are few in the West. It would also reduce Poland's ability to earn the hard currency necessary to service its debts to the West.

Question 4. What is the probability of Poland and other Eastern bloc nations' ability to pay for imports of U.S. agricultural goods?

Answer. A nation's ability to import is directly related to its export earnings capabilities and underlying creditworthiness. This, in turn, depends upon such factors as the economic performance of the exporting country, economic developments in the potential importing country, the availability, quality and price of competing goods and the existence or absence of impediments to trade flows. Given Poland's extremely serious financial, economic and debt problems, it is unlikely that they will be in a position to import significant amounts of U.S. agricultural goods in the immediate future. Romania's financial difficulties also raise questions about its ability to

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import agricultural goods in current circumstances. The other Soviet bloc countries have sufficient hard currency earnings to enable them to purchase U.S. agricultural goods for cash if those governments decide to allocate these funds for that purpose. If they do so, it will reduce the resources they have available for other purposes.

Question 5. What is the likelihood the United States will be able to obtain repayment from Poland on guarantees paid to U.S. banks?

Answer. In the short run, it is highly doubtful that Poland will pay these obligations in full, although some payments are being made. Over the long run, the likelihood of payment would appear to be much greater. Poland has such basic resources as an educated and technically skilled population, coal, copper, sulphur and other raw materials to earn the foreign exchange needed to pay its debts. As it is in the economic interest of Poland to retain its business and financial ties with the West, it can be expected to make all possible efforts to meet these obligations. Poland has repeatedly indicated its intention to do so, and we will make every effort to pressure Poland to make its payments in full.

Question 6. Exactly what are the cases this century where foreign governments have defaulted to the U.S. Government, U.S. citizens, and to U.S. corporations? Is the U.S. Government owed money today from any of these cases? Are U.S. citizens or corporations owed money from any of these cases? If money is owed from these cases precisely what are the current amounts due?

Answer. We are not aware of any country that has been formally declared in default by the U.S. Government.

The Office of the Assistant Secretary for International Affairs publishes data semi-annually on foreign indebtedness to the United States Government. One of these publications singles out "Amounts Due and Unpaid 90 Days or More". This information has been compiled since June 30, 1972. In cases of loan agreements with scheduled repayment dates, the 90 days are calculated from the due dates of the incomplete payments. For accounts receivable, the reference point is that date on which repayment is customarily expected. We are enclosing, for your information, a copy of the latest report, which was published September 30, 1981.

The United States Government does not maintain on a regular basis information on amounts due by foreign governments to U.S. citizens or U.S. corporations.

STATEMENT OF ROBERT D. HORMATS, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. Chairman, I welcome the opportunity to appear before this committee to discuss the Administration's approach and policy regarding the Commodity Credit Corporation's (CCC) exposure in Poland and other countries in Eastern Europe, and on CCC actions in the past two months with regard to these countries. To provide for an efficient division of labor among the members of this panel, I will focus my remarks on the broad historical and political backdrop to CCC policies regarding Poland and other Eastern European countries. My colleagues here today will discuss in greater detail the financial and technical aspects of the issues under their direct responsibilities.

U.S. POLITICAL AND ECONOMIC APPROACH TO THE U.S.S.R.

Let me begin with a brief and broad-brush outline of our general policy toward the Soviet Union and its allies.

This Administration came to office with—and continues to adhere to—a firmly-held view that East-West relations must be a two-way street. The Soviets, in particular, must recognize that aggression and adventurism abroad, and/or violations of human rights or treaty obligations, must affect economic and political relations. We are determined, therefore, that the repression of the Polish people—which we and our allies agree that the Soviet Union supports and encourages—must be met with a firm and united Western response.

RESPONSE TO REPRESSION IN POLAND

We and our NATO allies have taken a series of measures designed to impose costs on the Polish and Soviet Governments for the repression of the Polish people. This is designed to maintain pressure against the suppression of human rights and Solidarity in Poland and towards a lifting of martial law, release of the political prisoners, and a genuine dialogue with Solidarity. We have taken a number of measures as have our allies. The most recent action was a decision by the EC to restrict imports into Western Europe of a number of Soviet products. We and our Allies are discussing additional measures to increase the pressure on the Soviets.

The events of the past 18 months in Poland demonstrate beyond question that the Soviet-imposed economic and political system there is an empty failure. A Communist Party which has lost both legitimacy and effectiveness had to be rescued by the military. The Soviets, of course, hope that this failure will be masked by divisive strains in the Western Alliance. They are trying hard to create discord between the U.S. and Europe in order to transform their failure in the East into a failure of unity in the West. We and our allies are determined that this will not happen. Our common objective is to strengthen the Alliance and apply sustained pressure on the Polish military regime and the Soviets. This will demonstrate to the Soviets our unity of purpose in imposing costs on them for flagrant violations of accepted international conduct.

CCC PROGRAM

It is in this context that I want to discuss our policies and actions on Polish debt in general, and on CCC exposure in Poland and the rest of Eastern Europe.

Some factual background may be in order at the start. Poland's major investment program, formulated in the early 1970's, had many flaws. One of the most important of these flaws was a neglect of its agricultural sector, which resulted in the importation of substantial quantities of agricultural goods. As the result of larger food requirements, Poland has been a significant market for US agricultural commodities. US sales have totaled $5.3 billion over the last 25 years. Of this amount, the CCC financing supported $2.6 billion in sales. Commercial transactions accounted for the remaining $2.7 billion.

Early in this period, CCC financing was seen mainly as establishing a share of what looked to be an important export market. In 1980 and 1981, of course, we were also motivated by a desire to help prevent the then-beginning liberalization of Polish society from foundering on the rocks of economic privation. CCC provided credit guarantees for commodity imports on three-year terms. Since 1978, our CCC credits and guarantees to Poland totaled about $2.0 billion.

In March 1981, Poland's financial squeeze finally became overwhelming. The Polish government informed its many creditors it could no longer meet its debt obligations. At that time, outstanding debt to or guaranteed by CCC totaled about $1.6 billion. Of this total, about $506 million was due under the now-inactive GSM-5 direct credit program, and about $1.1 billion was due under the GSM-101 and 102 guarantee programs.

In this situation, Poland asked its creditors to reschedule its massive debts. In May 1981, Western governments,[1] following their normal debt policies, rescheduled 90 percent of Polish-1981 official debts—about $2.4 billion. The U.S. share of that rescheduling amounted to $380 million, of which $360 million belonged to CCC. Poland repaid about half of the unrescheduled amount it owed the U.S. Government before the imposition of martial law; however, it has made no payments since the onset of martial law.

Poland also has been negotiating a 1981 rescheduling with its private creditors. This is not yet signed because the banks are insisting that all past due 1981 interest be paid. Over the past two months, the Poles have paid most of that interest.

The imposition of martial law in Poland on December 13, 1981 halted any further U.S. Government guarantees to Poland. In January, the NATO countries agreed to suspend all new official credits to Poland (except for humanitarian purposes), and not to begin negotiations for a 1982 debt rescheduling.

The NATO allies are in firm accord that one of the most effective common tools to keep sustained pressure on Poland and indirectly on the Soviet Union is to continue to insist that the Polish government repay its debts. The Polish financial situation is, to be frank, quite precarious; that government continues to make some repayments, albeit partially and slowly. These payments divert scarce foreign exchange from the purchase of imports needed to run the Polish economy. Accordingly, insistence on payment increases the economic pressure on Poland. This, in turn, means more pressure on the Soviets. The more the Poles pay, the less foreign exchange they have to import goods from the West, and the greater the pressure on the Soviets to provide the Poles with the goods they need.

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[1] Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany Italy, Japan, the Netherlands, Norway, the United Kingdom, the United States of America, Sweden, Switzerland, and Spain.

An official declaration of default—while not legally absolving Poland of its obligations to repay—could give the Polish government a political excuse to stop making repayments. (In fact, the Poles might elect to stop paying only those creditors that call default.) And, unlike the case of Iran, only a few assets might be seized in the event of default; and they would be extremely difficult to attach legally. However, a declaration of default, of course, remains an option we can use if circumstances warrant.

The CCC decision on the procedures under which it honored its guarantees to U.S banks is consistent with its legal authority. The Department of Agriculture has addressed this issue. The decision merely modified the procedures for the banks regarding the filing of notices of non-payment or default in order to be reimbursed by the CCC. With or without such notices, the CCC had the obligation to pay the banks. I wish to make several points to clarify this issue:

This procedure in no way relieves Poland of its obligation to pay these debts. Where the banks have utilized the payment procedures offered by the CCC, the Polish government will owe the money to the USG instead of to U.S. banks; and we will press hard to collect.

It is not a bail-out of the banks. The USG guaranteed these credits; they are due and unpaid, and the USG is oibligated to honor its guarantees.

It does not prevent the banks from declaring Poland in default. The banks are owed non-guaranteed credits, and could declare default if those are not repaid. They have not done so.

It is not a rescheduling for the Poles. There is no extension of maturities and no change in terms.

I will defer to Deputy Under Secretary Hammer on the details and legal elements of the new CCC procedures, although I will add that State Department lawyers believe CCC was well within its legal authority in modifying its procedures as it did.

OTHER CCC EXPOSURE IN EASTERN EUROPE

As to CCC exposure elsewhere in Eastern Europe, I will also defer to Mr. Hammer for a detailed exposition. The exposure of the CCC in other Block countries, at $48 million, is only 7 percent of that in Poland and the financial picture in other Eastern European countries also differs from that of Poland. Exports of other Eastern European countries totaled roughly $26 billion in 1981, while their debt service was about $10 billion—a ratio of 39 percent, compared to Poland's 157 percent ratio.

To give you a more detailed financial picture of the countries of Eastern Europe, below is a brief sketch of their debt service ratios in 1981 along with a rough estimate of their imports of agricultural products in that year. The GDR's debt service ratio was 68 percent; its imports of U.S. agricultural products were valued at $284 million. U.S. food sales to Romania, whose debt service ratio stood at 31 percent, were about $368 million. Czechoslovakia, with a debt service ratio of 22 percent, bought $58 million in food from the U.S. Hungary's imports of U.S. agricultural products totaled about $13 million (but it is a net exporter of food), and its debt service ratio was 35 percent. Bulgaria had a debt service ratio of 36 percent and bought about $197 million of U.S. agricultural goods.

With the exception of Poland, and more recently Romania, the Eastern European countries are paying their external debt on time, albeit with difficulty in some cases. Nonetheless, some of these countries are facing a liquidity squeeze and may have to make difficult choices concerning the allocation of scarce foreign exchange resources between food and non-food imports.

The Soviet Union may well encounter the same dilemma. The USSR's debt service ratio is only 15 percent at present. But it is likely to rise sharply over the next few years if the Soviets attempt to maintain their current (3 percent) growth of import volume. The Soviets will probably have a continuing need for 35-45 tons of grain annually to maintain their standard of living—which is lower than Poland's—and may have to choose between: (a) cutting their standards of living now by reducing food imports; and (b) limiting imports of capital goods necessary to enhance their productive capacity and hence their future standard of living.

CONCLUSION

In conclusion, Mr. Chairman, our policy on Polish debt to the CCC is difficult to discuss in terms of "hard" vs "soft" but can be discussed in terms of "effective" vs "ineffective". At this point, we are convinced that insisting that the Polish government pay its debt is the best way to put effective financial pressure on Poland and its primary supporter, the Soviet Union. This assessment is shared, at the highest levels, by our allies. We are pressing, and will continue to press, the Polish Government hard to meet its debt service obligations. On other Eastern European countries, while we will be aware of market possibilities, we will avoid exposure in situations where creditworthiness does not warrant it.

Department of State,
Washington, D.C. April 6, 1982.

Hon. Jesse A. Helms,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate.

Dear Mr. Chairman: I am pleased to forward answers to the questions on Polish debt which you sent to Assistant Secretary Hormats with your March 16 letter.

Please feel free to call on me if I can be of any further assistance.

With cordial regards,

Sincerely,

Powell A. Moore,
Assistant Secretary for Congressional Relations.

Question. Is there any doubt that Soviet bloc nations are dependent upon credits from the West in order to meet their import requirements for food and other goods?

Answer. During the years of detente, Eastern Europe and the Soviet Union drew increasingly on Western private bank and official credits to finance imports of both food and high technology capital goods (plant and equipment). These Western-financed imports enabled the Soviet Union and Eastern Europe to improve their overall economic growth and raise the standard of living of their people. However, a dependency on Western financing and consumer and industrial goods was built up in the process. This dependency is particularly acute in the case of Poland, but the Soviet Union and other Eastern European countries also rely on Western financing for key hard currency imports. It is also appropriate to note that all industrially developed countries, including those in Eastern Europe, are dependent on normal credit relations with international financial markets. The Soviet Union and Eastern European countries are not unique in this respect.

Question. Does this situation not present credit arrangements as an effective foreign policy tool for the US in dealing with the Soviet Union and its client states?

Answer. Western credits for the Soviet Union and Eastern Europe have consisted of both private bank financing and government direct credits and credit guarantees. The relative importance of private versus official government credits varies from country to country. However, with the one exception of Poland, where Western government credits and credit guarantees accounted for two thirds of total credit flows in 1981, private bank lending has played the primary role in financing Soviet and Eastern European imports from the West. The USG has not accorded official credits to the Soviet Union since 1975 as a result of the Jackson-Vanik Amendment to the 1974 Trade Act, and has suspended all official credits to Poland (humanitarian assistance is provided to voluntary organizations, not the Polish government) as a result of the GOP declaration of martial law in December. Official US credits to other Warsaw Pact countries are minimal.

There appear to be broad cutbacks in lending by U.S. banks to the Soviet Union and some countries in Eastern Europe as a result of the uncertainty generated by the general deterioration in East-West relations and the Polish and Romanian financial crises. Regarding government credits and guarantees, the purpose of the recent Buckley Mission to key Western European capitals in mid-March and follow up consultations has been to encourage our allies to engage in meaningful restrictions on official credits and credit guarantees to the Soviet Union. A good dialogue on the credits issue was engaged; further consultations will be necessary to achieve our objective.

Question. What kind of economic conditions do you believe would be necessary to make the Polish economy productive enough to generate the capital and economic growth to pay off the new and old credits?

Answer. Poland is suffering a profound and continuing decline in economic output. Reversal of this decline will require changes in Poland's own policies and additional resources from some external source. But, in any case, a period of years will be required before Poland can produce sufficient exportable goods to meet its external obligations. Polish hard currency debt service obligations (principal and interest payments) are estimated at some $10.5 billion in 1982. To generate the funds necessary to meet those obligations, Poland would have to run a substantial trade surplus with the West. This could be achieved by pushing traditional exports of coal and light manufactures and cutting back sharply on hard currency imports, primarily for food and fuel, but also on investment goods. However, imports have already fallen dramtically and there is little room for further compression. The Poles would need to return capacity utilization in the mining and manufacturing sectors to at least pre-1980 levels, improve worker productivity, and provide necessary market incentives to domestic agricultural and industrial production through price reform. Over the longer term, basic economic reform to surmount the rigidities of an overcentralized economy will be necessary as well, if only to maintain a social consensus and political stability in the wake of Solidarity's pioneering efforts. Only by moving in the direction of a market economy can Poland hope to raise productivity and efficieny enough to repay its debts over time.

Question. Do you believe such conditions are enforceable by the West?

Answer. Western government and private bank leverage on the Poles is almost entirely a function of Western willingness to provide Poland new credits or economic assistance and debt relief. While economic reform is necessary for Polish economic and financial recovery, such conditions would be difficult to enforce by the West, particularly where reforms would run counter to Polish government political objectives.

Question. Do you think we should even attempt to try to impose such conditions?

Answer. It is in USG interests, for both humanitarian and political reasons, to encourage Poland to pursue both economic and political reform. However, our leverage is limited under present circumstances.

Question. If these kinds of conditions are not possible or if it is inadvisable for the West to try to impose them effectively, does that not mean that the bankruptcy of Poand is self-evident and unavoidable?

Answer. It is in the Polish government's interest to try to continue to make payments to the West in order to avoid bankruptcy which would result in severing ties to the West completely and making Poland economically, as well as politically, more dependent than ever on the Soviet Union. Moreover, Poland cannot hope to return to a period of steady econmomic growth and rising standard of living without a continuing flow of credits from the West. Such flows will be predicated on the implementation of significant economic and political reforms.

Question. What is your assessment of the prospect of new commercial trading arrangements with Poland and Western countries on a credit basis in the immediate future?

Answer. The prospects in the immediate future are nil for a renewed growth of trade based on Western credits. Poland cannot pay all of the $10.5 billion it owes Western creditors in 1982. Moreover, the theory of the Soviets' financial umbrella is disproved in the case of Poland. Finally, the Jaruzelski regime has shown little inclination to implement the necessary political and economic reforms to regain the trust of Polish workers and put the Polish economy back on solid footing, so as to enhance Poland's capability to meet its external obligations, over time. In these circumstances, it is unlikely that the private sector would extend new credits to Poland.

Question. Because I have brought out a number of questions suggested by Mr. Rohatyn's previous testimony, I feel it appropriate to state for the record his recommendations to resolve the immediate issues of credits to Poland:

1. The Polish debt in the hands of commercial banks should be acquired by the respetive Western central banks at some discount from the face amount, say 50 percent, with final determination deferred until a plan of reorganization is worked out with the creditor states.

2. The Western governments could then, or a coordinated basis declare Poland in default, and cut off additional credits to Eastern Europe.

3. Simultaneously, the West could offer to participate in Soviet efforts to refinance Eastern Europe, but only if such refinancing were linked to other matters under present negotiation with the Soviet Union, and he suggests arms reductions—and I could add Soviet support for Cuban adventurism in Latin America as a suggestion of my own. What do you think are the prospects for the United States to participate in such a series of steps as Mr. Rohatyn has suggested?

Answer. The Rohatyn proposal would require a substantial payment by Western central banks to commercial banks and assumes a willingness of West Europeans to support this strategy which would likely not materialize. It is a variant on the straight default option, and has the same drawbacks. It appears not to discriminate among the Eastern European countries—some of which are closer to us economically and politically than others—either in terms of their economic or political situation—and draws premature conclusions about Western and Soviet interests in trading. Western financing against Soviet concessions in other areas. A more detailed discussion of these issues follows.

Western European governments would not likely join in a coordinated declaration of default against Poland. The NATO allies are in agreement that we should not call Poland in default at the present time, but should press for collection of existing debts and suspend negotiations on the rescheduling of Poland's 1982 debt pending a favorable evolution of the Polish political situation. However, if faced in the future with a stark choice between rescheduling and default, we believe that the Western Europeans would almost certainly opt for rescheduling, and would probably not link this decision to Soviet behavior in Eastern Europe.

From the U.S. standpoint the proposal is essentially a variant on the straight default option and has the same drawbacks. In our view, the best way to keep sustained pressure on Poland, and indirectly on the USSR, is to lean hard on the government of Poland to pay its debt. Further, we will continue to make decisions on the extension of official credits/guarantees to the Eastern European countries on a case-by-case basis, in light of the credit worthiness of the country concerned and in a fashion consistent with the present U.S. policy of differentiation.

Mr. Rohatyn's proposal ignores the substantial political, cultural, and economic differences among the Eastern European countries. U.S. policy has for years deemed it appropriate to differentiate among those countries both in terms of their economic/political circumstances. For example, Czechoslovakia and Bulgaria have not yet experienced serious financial difficulties, are not highly dependent on Western financing and would be loathe to increase significantly such dependence lest they replicate the Polish experience. From the U.S. standpoint, it is not in our interest to give financial support to regimes which are highly repressive internally and which toe the Soviet foreign policy line. And the Soviets might have less interest in making concessions to secure Western financing for Romaina: they may assume that once Romania gets its financial house in order, most Western governments would renew lending to that country. The Hungarian economy is basically strong and, in some ways, the most Western-oriented of the CEMA economies. It is our interest that the liberalization process continue in Hungary, but because the economy is well managed and debt management has been prudent, large-scale official financial support appears unnecessary. It is unlikely that the U.S.S.R. would act to secure additional Western financing for Hungary. Concerning Poland, the NATO allies are in agreement that official lending to the government of Poland should not resume until the Jaruzelski regime lifts martial law, releases political prisoners and restores a meaningful dialogue betwen the government, Solidarity and the Church.

Yugoslavia is a special case, and its economy is run in a more responsible and more market-oriented way. We will continue to support its independent course of action. Yugoslavia clearly should not be the object of schemes which involve political/financial bargains with the USSR.

Question. If Mr. Rohatyn is correct, there is a strong likelihood that Poland will not be in a position to be a paying market for U.S. agriculture exports—unless some action is taken to reschedule Poland's debts. Can you see any circumstances in which the United States would participate in such a rescheduling or is that going to be entirely up to the Soviet Union?

Answer. At a meeting of the official Polish creditor's group in mid-January, it was agreed that there would be no consideration of rescheduling Poland's 1982 debt maturities until the Polish government met a minimum of three conditions: a) lifting of martial law, b) release of political (Solidarity) detainees, and c) resumption of a dialogue with Solidarity and the Church. So far, the Polish government has tightened its authoritarian grip on the Polish people. Under the circumstances, it is difficult to foresee when negotiations on a 1982 rescheduling of Polish official debt might get underway.

STATEMENT OF CARL F. SCHWENSEN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and members of the Senate Committee on Agriculture, Nutrition and Forestry, the National Association of Wheat Growers appreciates being invited to appear at today's hearing on Polish agricultural loan defaults. I am Carl Schwensen, executive vice president of the NAWG.

Eastern Europe was once a growing market for U.S. credit sales, but the increasing indebtedness of the region is producing a change. In the case of Poland, U.S. trade has been overwhelmingly in agricultural commodities, and corn and soybean sales have dominated this trade. Wheat sales have been quite small, in comparison to other grains.

Polish grain purchases from the U.S. have been financed by credits or credit guarantees extended by the U.S. Department of Agriculture's Commodity Credit Corporation. About one-third of Poland's U.S. debt exposure is owed to the CCC under its direct export credit program (GSM-5). Under this program repayment is to be made in U.S. dollars, and interest charges on these loans are at levels greater than the cost of money to the U.S. government. The remainder of Poland's debt for U.S. commodity purchase is largely owed to U.S. banks, and these three-year loans and a portion of the interest are guaranteed by the U.S. government (GSM-102 program). Poland's debt was rescheduled last year, but the country has continued to be unable to fully meet its financial obligations.

Within the spectrum of political, economic, and military options available to the U.S. government in responding to the continuation of martial law in Poland, a declaration that Poland has defaulted on these loans has been advanced by some as an appropriate action. To the extent that this approach has thus far been discussed, considerations seem to have ignored the impact such a decision could have on other importing nations who have or may in the future use CCC credit facilities, and the impact on U.S. banks and their future interest in these programs. Moreover, this consideration also fails to have shown adequate regard for the fact that President Reagan has suspended all future credits to Poland, and that the has set conditions which must be met before debt rescheduling can take place.

We feel that it is imperative that the integrity of the USDA's Commodity Credit Corporation be preserved in the future handling of government credits. The CCC is vital to the operation of domestic price support and export credit programs, and its reputation and stature must not be allowed to diminish. Banking institutions must continue to be able to have confidence in CCC credit actvity if the export guarantee program is to remain viable. Foreign customers, as well, must be able to depend on the consistency of CCC operations and trust that the terms of its programs will not be warped to achieve political aims.

In short, the export credit guarantee program which Poland has used to the level of approximately $1 billion is the only commercial program that the U.S. has in place to facilitate export sales of wheat and other commodities. It must not be allowed to become discredited in the face of depressed U.S. farm income, excessive grain stock accumulation and increased farm indebtedness at record rates of interest.

In this regard, it seems relevant to focus on the deficiencies that already exist in U.S. credit offerings. CCC's direct export credit program was terminated in fiscal year 1981 when the Carter Administration decided to discontinue funding. The only program proposed for funding in the President's fiscal year 1983 budget is the credit guarantee program (GSM-102), and the level of financing for this effort at $2.5 billion represents only about 60 percent of needed funding. We do not consider the guarantee program as being an adequate replacement for direct CCC credit, since its principal aim was not to produce a sales advantage or a savings to taxpayers, but to reduce budget impact. During the period that direct credits were offered by the CCC, interest was charged at a level between the prime rate and the cost of money to the CCC, as opposed to the current guarantee program where private loans are made at prevailing interest rates.

We are convinced taht the very limited U.S. credit offerings are a serious drawback in expanding wheat exports, especially during the current period of a declining world economy and a stronger U.S. dollar. U.S. Wheat Associates, the growers' foreign market development organization, has found that the U.S. is simply not competitive in the area of export credits. It notes in particular the need for a medium term credit program which can offer competitive inerest rates for foreign buyers, which would now be in the range of 10-12 percent.

The NAWG was pleased to see this Committee and the Congress include authority for revolving fund for direct export credits in the 1981 Farm Act. We are likewise pleased that a majority of the Committee has indicated its support for emergency legislation to implement this program in fiscal year 1982. This program provides the basis for a new initiative in U.S. agricultural trade, and it is important that it be activated this year.

Finally, Mr. Chairman, U.S. export credit programs do not solely benefit our foreign customers, they also boost the nation's trade earnings and benefit farmers and consumers alike. We advise caution in the handling of our credit programs, since the nation's reputation in world markets is based in part on our use of these programs.

STATEMENT OF JOHN STEVENSON, CHAIRMAN, LEGISLATIVE AFFAIRS COMMITTEE, NATIONAL CORN GROWERS ASSOCIATION

I am John Stevenson, a corn and soybean farmer from Circleville, Ohio, and the current vice president and chairman of the Legislative Affairs Committee for the National Corn Growers Association. Mr. Chairman, I appreciate the opportunity to meet with you today to reiterate the positions of the National Corn Growers Association on the value, and need for expansion, of the export credit sales programs of the Commodity Credit Corporation. Also, I would like to express the concerns of the NCGA Board of Directors about the viability of various programs resulting from extensive budget exposure and the possible effects of such exposure on the ability to sustain funding for U.S. commodity price support and loan programs.

Recent actions of international significance have fueled speculation about the ability of the CCC to meet the obligations for funding domestic commodity and storage facility loan programs. Unfortunately, this concern has arisen over programs maintained by the Corporation that provide direct and guaranteed loans to foreign purchasers of U.S. agricultural commodities. These export credit sales programs are of immeasurable value to the U.S. agricultural industry in general, and specifically to producers of agricultural commodities. They provide a necessary vehicle for increasing exports of raw and processed agricultural products that in turn inject needed revenues into an already depressed farm economy. In the five year period from fiscal year 1976 through fiscal year 1980, 15.6 million tons of corn were exported under CCC export credit programs at a total value of $1.7 billion. The recent decision by the administration to cover $3.35 million in delinquent payments on Poland's debt for loan guaranteed by the Commodity Credit Corporation, and the possibility of similar action in the case of Romania, is the center of such debate.

Notwithstanding these recent developments and the level of uncertainty created, the National Corn Growers Association strongly recommends that such programs not fall prey, as have other aspects of U.S. grain trade policy, to the intensified debate within the circles of U.S. government over the trade relationships between the United States, the Soviet Union, and other eastern European countries. If Poland is declared in default on the loans, then this will only serve to exacerbate an already severe credit situation facing that country. It would contribute also to a serious food shortage in Poland. This would, in effect, serve to defeat the basic purpose of the export credit sales programs to provide the opportunity to maximize exports of agricultural commodities to nations that otherwise would not have the ability to make such purchases. In addition, this program is an excellent device as a market development tool to capitalize on the potential for expanded exports in the future.

There justifiably exists some concern in the agricultural community about the future integrity of the Commodity Credit Corporation. It could definitely be argued that U.S. officials could have been more circumspect in their lending decisions in response to Polish requests. However, such attention should not be targeted solely on the viability of the CCC export credit sales programs; it should also address financing obligations under the commodity loan programs to U.S. farmers. Moreover, attention should be focused on the justification for the seemingly unwarranted and unrealistic past and current projections for expenditures by the CCC for price support programs. During the current fiscal year, outlays are now fairly well expected to be at least $6.3 billion. This sizeable outlay is due to record production of various commodites resulting in significant normal loan and reserve grain payments, storage cost, and large deficiency payments for various commodities. The levels of CCC price support programs were originally forecast at no more than $1.85 billion in fiscal year 1983; $2.21 billion in fiscal year 1984; and $1.77 billion in fiscal year 1985. However, a recent revision in the estimate for fiscal year 1983 now places projected expenditures at $6.8 billion. These forecasts for subsequent years will depend in large measure on two issues: Whether grain, rice, and cotton farmers participate in the 1982 set-aside programs and whether there is any movement to normalize agricultural trade with the Soviet Union. If there is significant participation in the set-aside programs and the "de facto" grain embargo remains in place, the current budget projections for CCC commodity price support and loan programs will not be maintained. In fact, these CCC obligations under the provisions of the 1981 Agriculture and Food Act would only soar to record levels in the subsequent years.

In addition to these factors, attention should be focused on the justifications for, and impact resulting, from the decision to constrict optional export credit sales programs of the Corporation.

Since 1980, the GSM-5 direct export credit program for financing purchases of U.S. agricultural commodities has not been funded. This program was replaced by the GSM-102 all-risk loan guarantee program, a program by which the U.S. Department of Agriculture guarantees loans made by private banks to foreign customers to purchase U.S. commodities. As you are aware, this is the program under which payments to American banks for Poland's delinquent debts were obligated. The decision to eliminate funding for the CCC direct export sales credit programs, thereby reducing financing flexibility, could be identified as a contributor to the current difficulties confronting the Corporation. The increased flexibility provided by optional export credit programs would contribute to reducing budget exposure by spreading the potential risk resulting from unanticipated debt payments through loan guarantee programs. Moreover, it would increase the opportunity for maximizing grain exports by utilizing a combination of direct export credit and loan guarantee programs.

These purposes were well considered by the board of directors of the National Corn Growers Association when recommendations for components of a long-term agricultural export policy were presented recently to administration and legislative officials. The NCGA board of directors urged the funding and implementation of several mechanisms whereby U.S. corn exports are competitive and consistently offered to all foreign markets. These include:

A. Direct CCC export sales credit programs.

B. Increased funding for complimentary CCC export sales credit programs.

C. Funding of and financing for the "agricultural export credit revolving fund" in title XII of the Agriculture and Food Act of 1981.

D. Expanded use of and increased funding for the very successful Public Law 480 program in developing and maintaining markets in developing countries.

In order to redress the severely depressed level of prices in the U.S. corn economy, the aggregate measures of the long-term international agricultural trade policy are a realistic, workable and understandable agenda for the 1980's. Most assuredly, the export credit sales programs of the Commodity Credit Corporation will play a significant role in this effort. These programs would contribute to an international grain trade policy based on consistency and reliability for the 1980's. In conclusion, you should examine the CCC export credit sales program from both the vantage of actual outlays in credit and financing for sales and the actual income accruing from such credit and financed sales. Too often officials just look at the initial outlay as budget expenditures, forgetting that both principle and interest will be repaid over time. In the process, agricultural products move into trade for disappearance, which reduces domestic stocks and the need for Government support payments to farmers.

Mr. Chairman, I again express my appreciation for the opportunity to appear before the committee today, and am prepared to attempt to answer any questions you may have at the appropriate time.

COMPTROLLER OF THE CURRENCY,
ADMINISTRATOR OF NATIONAL BANKS,
Washington, D.C., March 11, 1982.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR SENATOR HELMS: This is in response to your letter of March 2 concerning the Commodity Credit Corporation and U.S. bank loans to Soviet bloc countries.

As we have discussed with your staff, U.S. laws restrict us from providing the Committee with information about specific lending relationships of individual U.S. banks. However, we can disclose that the bulk of Eastern European exposure in U.S. banks is held in the portfolio of the largest banks. The aggregate exposures for all U.S. banks to Soviet bloc countries is shown in the attached exhibit.

In our opinion, the safety and soundness of any U.S. bank would not be threatened by a Polish default. We believe it is unlikely that all non-guaranteed U.S. bank loans to Eastern bloc countries would simultaneously become frozen and uncollectible assets in the U.S. banking system.

However, the banking systems of other countries are more heavily involved in lending to the Soviet bloc because of trade financing between neighboring states. Therefore, a major change in the creditworthiness of one or more Soviet bloc countries could have a significant impact on those banking systems and on international financial flows. The consequences of such changes in the U.S. financial system is difficult to predict.

I hope this information responds to your request. I have also enclosed a formal statement to be included in the record.

Sincerely yours,

C. T. CONOVER,
Comptroller of the Currency.

AGGREGATE EXPOSURES [1] BY U.S. BANKS TO COMMUNIST BLOC COUNTRIES, JUNE 1981

[Dollars in millions]

	Total exposure	Number of U.S. banks lending	Exposure of 20 largest U.S. banks
East Germany	$1,522	48	$1,269
Poland	1,337	61	1,076
Hungary	1,046	52	754
U.S.S.R.	606	42	529
Romania	491	34	404
Bulgaria	347	26	311
Czechoslovakia	230	24	170
Total	5,579		4,513

[1] Nonguaranteed exposures. Consists of actual loans outstanding as well as formal commitments to lend.

STATEMENT OF C. T. CONOVER, COMPTROLLER OF THE CURRENCY

Mr. Chairman, I welcome this opportunity to discuss and put in perspective the involvement of the U.S. banking system with Poland and COMECON countries. Your inquiries to me were principally with respect to non-guaranteed obligations of Poland and other COMECON countries owed to U.S. banks. In my remarks, I will focus on this non-guaranteed indebtedness.

Before turning to the specific questions I should point out that the information you request is gathered essentially through two sources: the examinations conducted by bank regulatory agencies in the individual banks and the Interagency Country Exposure Report. Public disclosure of any individual bank information is restricted by law. However, I believe that the material presented and my remarks will be responsive to the areas of interest outlined in your letter and provide insight into the degree of involvement of the U.S. banking system with Poland and other COMECON countries.

The bank regulatory agencies collect information for the Country Exposure Report on a semi-annual basis as of June 30 and December 31 each year. Although December 31, 1981 data is not complete, with approximately 60 percent of the returns in at this time, it is safe to say that exposures to Poland have not increased and have, in fact, declined slightly since June 30, 1981. The most recent complete data as of June 30, 1981 reveals that direct non-guaranteed obligations to borrowers in Poland or guaranteed by official institutions in Poland totalled approximately $1.3 billion. This exposure to Poland was widely dispersed among sixty-one (61) banks. Neither the solvency nor the liquidity of any individual U.S. bank appears threatened by the current economic or financial situation in Poland.

To put my remarks in context, the twenty largest U.S. banking institutions hold eighty-one percent of the claims on Poland. Polish obligations to these banks represent a range of capital exposure in the individual institutions from two-tenths of one percent to six percent. If we compare the aggregate Polish debt in the twenty largest institutions to the aggregate 1981 profits, reserve for loan losses, and equity capital of these banks, we find that the exposure represents twenty-four percent of 1981 net earnings, twenty-three percent of 1981 year-end reserve for loan losses and three percent of 1981 year-end equity capital. At present, U.S. banks are not accruing interest on the non-guaranteed portion of this Polish debt. It might be helpful to note that in a comparative sense, the Polish exposure, while large in dollar terms, is not unusual in size in relation to the debt of major U.S. corporate borrowers.

I believe the information presented above confirms that the U.S. financial system could absorb a loss on the non-guaranteed Polish exposure without major adverse effect.

The Committee has also inquired about loans to Romania and East Germany. Romania's indebtedness to the U.S. banking community totals $491 million as of June 30, 1981. A total of thirty-four U.S. banks are lending to Romania. Non-guaranteed exposure to Romania in the individual banks ranges from less than one-tenth of one percent of capital funds to slightly under seven percent.

East Germany is the largest COMECON borrower from U.S. banks. A total of $1.5 billion has been loaned by forty-eight U.S. banks to East German borrowers as of June 30, 1981. Non-guaranteed exposures in the individual banks range from less than one-tenth of one percent to twelve percent of capital funds.

The twenty largest U.S. banks hold eighty-two percent of the combined exposure to Poland, Romania, and East Germany. A comparison of the aggregate exposure to these three countries by the twenty largest banks similar to that presented above for Poland reflects an exposure equal to sixty-six percent of 1981 earnings, sixty-four percent of 1981 year-end reserve for loan losses, and eight percent of equity capital.

A similar comparison can be drawn for the entire COMECON exposure. The twenty largest banks hold eighty-one percent of the total claims to these countries. This aggregated exposure in the twenty largest banks equals one hundred nine percent of 1981 earnings, one hundred seven percent of 1981 year-end reserve for loan losses, and fourteen percent of 1981 year-end equity capital.

These figures represent the maximum exposure for U.S. banks in the eventuality of default by the entire COMECON group. Practically speaking, we do not view such a simultaneous default as a likely occurrence.

While our analysis indicates that in a statistical sense the U.S. banking system would not be threatened from a solvency perspective, what is less certain is whether or not the recent events in Poland will alter traditional or existing lending patterns by Western banks. One should not look solely at the ability of the U.S. banking system to absorb losses on credit to the COMECON countries, but must also consider the impact on the international banking community as a whole.

Reportedly, banking systems in other countries have significantly larger exposures to these countries than does the U.S. system. These exposures represent financing of structural trading relationships across neighboring states. Consequently, the impact of defaults by the COMECON countries on the banking systems of these countries could create pressures in the international financial system that are not readily apparent.

These pressures could include an interruption of financial and trade flows as well as possible disruption of inter-bank relationships. It would be difficult to quantify the precise indirect impact on the U.S. banking system that market reactions to default by a number of COMECON countries could have; however, it could be larger than merely the ability of the U.S. system to absorb a write-off of communist bloc debt.

STATEMENT OF AMERICAN SOYBEAN ASSOCIATION, ST. LOUIS, MO.

POTENTIAL CCC LOAN DEFAULTS IN POLAND AND ROMANIA

The American Soybean Association is pleased to offer comment on the relationship of the export lending activities of the Commodity Credit Corporation to the problems of overdue payments to the U.S. Government and private banks by Poland and other Soviet bloc nations. We ask that our comments be entered into the record of hearing scheduled for March 12, 1982.

ASA is a national, non-profit, non-partisan, volunteer, producer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA has approximately 20,000 dues-paying soybean producer members and ASA's programs are supported by over 475,000 soybean producers in 23 states. ASA seeks to improve soybean profitability through research, export expansion, public and grower education, and government relations.

We congratulate the Senate Committee on Agriculture, Nutrition and Forestry for providing a forum for public comment on the likelihood of Poland and Romania defaulting on direct CCC export loans or commercial loans guaranteed by CCC. While the potential defaults have been widely discussed by the media, a full representation of the facts in the issue have not been presented. Hopefully, a more realistic picture of the events leading up to the current situation will be available after the hearing.

First, the Amercian Soybean Association must cite the great benefits American agriculture has gained from the CCC export credit and loan guarantee programs. Since the GSM-5 direct export loan program was initiated in 1956, billions of dollars of U.S. commodities have been exported under the program. Practically none of those commodities would have been exported in the absense of credit. Obviously, the

American economy has gained enormously from the exports made possible through the program, but more important is the fact that farm income has been enhanced.

While less effective in expanding exports than the GSM-5 program, we believe the GSM-101 and GSM-102 loan guarantee programs have also greatly benefitted farm exports and farm income. The high commercial interest rates of the last two years have certainly reduced the effectiveness of the loan guarantee program, but still billions of dollars of commodities were sold through the program that would otherwise be in America's storage bins.

It is important to note that the potential defaults by Poland are greatly the result of the GSM-5 program being used more as a tool of U.S. foreign policy than as a market development tool. In 1978, Poland sought up to $1 billion in GSM-5 credit from the U.S. to buy commodities. After reviewing Poland's financial condition, USDA agreed to provide the Polish Government with only $200 million of credit fearing that greater amounts would invite default. However, officials of the Department of State and the National Security Council were successful in convincing President Carter to increase the Polish credit line to $504.7 million. The additional $304.7 million was extended completely for foreign policy reasons. Similar levels were extended in 1979 and 1980. Had the decision been left to the Department of Agriculture, the U.S. would likely not be in the position it is today and Poland might even be better off.

As for the future, it is obvious that no more credits can be extended to Poland or Romania until those nations shore up their financial condition. The CCC Charter Act requires the CCC Board of Directors to protect the assets of the Corporation. As such, to extend loans to countries like Poland and Romania where repayment is unlikely is in violation of the law. No foreign policy objective should override the mandate to maintain the financial soundness of the corporation. If the Administration finds it necessary to provide insolvent nations with food the funds for such food aid should be made out of Congressionally authorized grant-in-aid funds, not out of the Commercial CCC fund.

On the positive side, the U.S. should fund the CCC Revolving fund authorized in the 1982 Agriculture and Food Act and again use direct CCC GSM-5 loans to expand U.S. agricultural exports. American agriculture is in dire need of an export stimulus to bolster farmer income and help us get out of the economic crisis we are currently experiencing. Direct export loans are an investment in profits and future prosperity. It is time we begin to make the investment.

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